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28 June 1983

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2416

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## CONTENTS

## CZECHOSLOVAKIA

- Crop Production Costs Assessed  
(Marie Lenickova; EKONOMIKA POLNOHOSPODARSTVA, No 4, 1983) 1
- Seminar Held To Outline 1983 Transportation System Goals  
(DDR-VERKEHR, Apr 83) ..... 9

## HUNGARY

- Unfolding of Hungarian Economic Reform Traced  
(Gerd Biro; EUROPÄISCHE RUNDschau, No 2, 1983) ..... 24
- Academics Ponder World, Domestic Economy, Inadequate Telephone  
Network  
(HETI VILAGGAZDASAG, 14 May 83) ..... 41

## POLAND

- Economic Advisory Council Reviews First Year's Track Record  
(RZECZPOSPOLITA, 17 May 83) ..... 47
- Alternative Report on Economy in 1982 Issued by Economic Advisory  
Council  
(ZYCIE GOSPODARCZE, 15, 22 May 83) ..... 50
- Outgoing Economic Advisory Council Chairman Interviewed  
(Czeslaw Bobrowski Interview; ZYCIE GOSPODARCZE, 24 Apr 83) 66
- Workers Aktiv Proposals on Prices Addressed by Government Official  
(A. Kozminski; TRYBUNA LUDU, 13 May 83) ..... 71

PAP Polls Blue-Collar Workers on Progress of Economic Reform (RZECZPOSPOLITA, 5 May 83) .....	75
Reform Commission Task Force Drafts Antitrust Bill (RZECZPOSPOLITA, 20 May 83) .....	78
Results of January Livestock Survey Published (Krystyna Szelenbaum; RADA NARODOWA GOSPODARKA ADMINISTRACJA, 21 Mar 83) .....	80
Briefs Soviet Experts' Viewing of Reform	86
YUGOSLAVIA	
Problems in Petroleum Supply Situation Examined (Salih Zvizdic; VJESNIK, 8 May 83) .....	87

CROP PRODUCTION COSTS ASSESSED

Bratislava EKONOMIKA POLNOHOSPODARSTVA in Czech No 4, 83, pp 178-180

[Article by Eng Marie Lenickova, Institute for Rationalization of Management and Labor: "Labor Requirements and Production Costs in Calculations of Standards in Crop Production"]

[Text] Czechoslovak agriculture has completely exhausted the extent of its potential development and during the Seventh Five-Year Plan has entered a stage where it must increase its production on a smaller area of agricultural lands with limited material inputs and also with fewer workers. For that reason, every enterprise must consistently search for hidden assets in management and, in particular, focus on stimulating the human factor. The range of rewards must include adequate room for penalties for poorly done and inferior work and conversely, for cash rewards for well-done jobs.

Necessary Determination of Enterprise Standards for Crop Production

In conjunction with the introduction of automated systems into the planning and analytical processes in the management of labor forces in agriculture, determination of appropriate standards appears to be an objective necessity. The manual "Technical-Economic Norms, Cost Standards and Calculations of Norms for Agricultural Enterprises," published by a team of experts of the URRP [Institute for Rationalization of Management and Labor] (December 1982), provides methodological instructions for the determination of the norms of production costs.

The manual lists 35 basic field crops. Agricultural operations for each crop are expressed in figures. Because calculations of standards particularly serve the needs of enterprise subdivisions (compilation of operational plans, plans for enterprise subdivisions, application of khozrashchet principles in enterprise subdivisions, as a basis for modern dispatching), subtotals representing the basic stages of field operations and total production costs are specified for each crop. In addition to the evaluation of seasonal operations by calculation of standards also containing information about the schedule for the completion of each operation, the fulfillment of the annual plan and of quarterly or monthly plans may be assessed as well.

Calculations of standards for crops are prepared most often in three variants which differ in technical equipment of the operations while respecting a specific model technological procedures (see "Model Technological Procedure"--Engineer Mada et al, URRP 1980).

Production costs in crop production are highly variable in their absolute expression as well as in their representation in percentage in the total costs of individual crops, depending precisely on the appropriate technical equipment of labor. In the median variant (II--contemporary, most frequently used technology) the production costs are in the 10 to 15 percent range. Conventional, obsolescent technical equipment (variant I) with a high share of labor input is characterized by a higher share of operational costs in production costs (variant I--beets for fodder, 41 percent). On the other hand, the long-term variant (III) with the most efficient machinery and operational equipment and with minimum manual labor has a very low share in the costs of production (variant III--winter wheat, 5.5 percent).

It is expedient to establish for every agricultural enterprise on the basis of its present machine equipment, the standard time consumption per individual operation and the labor-intensiveness of products made from crops cultivated with the help of that equipment. Proceeding from those norms, the enterprise will be able to determine the number of workers required to maintain a steady process of production and the amount of operational costs.

The technological card serves as a good basis for the planning of production costs in agricultural enterprises. When determining the production costs in the methodological manual, the process that was followed was similar to filling out [the card]. Enterprises which, while preparing their annual plans, fill out also the "Technological Card" which at present is non-mandatory, will certainly acquire more experience and, thus, also better qualifications for accurate determination of the amount of wages payable, or as the case may be, they will be able to react more efficiently and promptly to potential intentional or inadvertent errors in primary documentation which lead to a disproportionate growth of production costs.

#### The Construction of Operational Costs in Crop Production

In determining production costs, a method based on natural standards of human labor was applied. The term of experts had at its disposal:

- anthologies and supplements of time norms for automated and manual operations in crop production and transport;

- units of labor-intensiveness in agricultural production prepared by a collective of experts of our institute;

- catalogues of qualifications of workers' occupation in agriculture, among them especially standard tariff categories and tariff grades on whose basis natural standards were transposed into a financial form.

Expanded labor-intensiveness was used as the basis for the calculation of per hectare production costs per operation in pertinent crops. Unlike direct labor-intensiveness whose standard includes only the time required for the completion of a particular operation, expanded labor-intensiveness also includes preliminary work needed for the performance of a particular operation. In terms of crop production, this means the time required for the shifts which service the tractors and self-propelled machinery, for trips to the field and from the field, turnabout time, changes of the contents in the tank, and so on.

When calculating production costs, tariff categories No 2 (manual and horse-drawn operations) and 3 (automated operations) were used for a 42.5-hour workweek of JZD [unified agricultural cooperative] members. To provide a space for possible rewards for prompt completion of well-done jobs, the tariff was expanded by a movable component in the form of a 30 percent bonus which may offer additional incentive for proper completion of the operation.

Production costs are expressed as net with rewards (to JZD members) and social security contributions (social security contributions have not been adopted for the employees of state farms) as well as direct wages to the employees of state farms (so-called gross rewards). We calculate direct wages for state farms by multiplying the rate of the appropriate hourly tariff by the time norm 21.5 percent higher than in the JZD (social security contribution).

Operational costs are calculated according to "Model Technological Procedures." Each operation has a timetable (the month when the operation takes place), so that we may calculate the required amount of labor forces and the operational costs to be drawn for each individual quarter and also use it to summarize individual stages of operation when preparing season plans. All operations are divided into 4 stages.

Table 1 presents a specific procedure in calculating the production costs of sugar beets cultivated with the use of conventional technology. Sugar beets are a crop which requires a relatively high input of manual labor. They are, for example, 8.5 times more labor-intensive per hectare than grain crops. With the use of conventional machinery equipment the first stage (autumn operations) requires 20.38 hours of manual labor, the second stage (spring preparation of soil, sowing and harrowing) 5.72 hours, the third stage (treatment of seedlings) 212.58 hours, and the fourth (harvesting) 24.79 hours.

Table 1

Calculation of standard production costs for sugar beets--norms of operational costs

Variant of technological equipment of labor: II

Projected per hectare yields: 40 t/ha

Tabulka 1

Normálová kalkulace vlastních nákladů CUKROVKY — normativy pracovních nákladů  
Varianta technického vybavení práce: II  
Uvažovaný hektarový výnos: 40 t.ha<sup>-1</sup>

1 Pracovní operace	2 Technické. vybavení práce	3 Měsíc provedení práce	4 Potřeba živé práce [h]		7 Přímé odměny (JZD) [Kčs]	8 Příspěv. na soc. zabezpečení (JZD) [Kčs]	9 Přímé mzdy (st. stat.) [Kčs]
			5 přímé	6 rozšířené			
10 Podmítka	Z-8011-21-PDPX-310	8	1	1,24	14	3	17
11 Vláčení po podmítce	Z-8011+2×4-BTN-480	8-9	0,29	0,36	4	1	5
12 Hnojení prům. hnojiv (1,5 t)	T-174, IFA+D-032	9	0,97	1,10	12	2	14
13 Vápnění (0,5 t)	T-174, IFA+D-032	9	0,48	0,54	6	1	7
14 Hnojení hnojem (35 t)	Z-4611+UNHZ-750, RT-45 h	9	9,45	11,24	108	23	131
15 Orba střední	ZT-300+5-PX-35	9-10	1,66	2,09	23	5	28
16 Orba hluboká	ZT-300+5-PX-35	9-10	2,10	2,65	29	6	35
17 Aplikace herbicidů (Pyramin 5 kg)	Z-4611+P-900 (2 postřik.) 18	10	0,89	1,16	13	3	16
19 Etapa celkem			16,84	20,38	209	44	253
20 Smykování a vláčení 2×	Z-8011+3×SY-350-A+ +6-BTZ-630	3	0,52	0,78	8	2	10
21 Hnojení prům. hnojiv (0,5 t)	T-174, IFA+D-032	3-4	0,48	0,54	6	1	7
22 Kombinátorování	Z-6711+25-KON-375	4	0,60	0,75	7	2	9
23 Aplikace herbicidů (Avadex 2 l, Burex 4,5 kg)	Z-4611+P-900 (2 postřik.) 18	4	0,89	1,16	13	3	16
24 Zavlačení herbicidů	Z-12045+3×4-BTN-480	4	0,25	0,29	3	1	4
25 Setí (2,8 kg)	Z-4611+6-SECZ-450	4	1,43	1,76	17	4	21
26 Válení	Z-8011+2×VLZ-170	4	0,30	0,44	4	1	5
19 Etapa celkem			4,47	5,72	58	14	72
27 Aplikace herbicidů (Betanal 6 l)	Z-4611+KERTI TOX--K-20/18	4	0,74	0,94	10	2	12
28 Rozrušování škraloupu	Z-5511+2×5-VZD-340	4-5	0,50	0,73	7	2	9
29 Plečkování I	Z-4611+6-KPRN-270,	5	2,34	2,69	29	6	35
30 Plečkování II	Z-4611+6-KPRN-270,	5-6	2,08	2,39	25	5	30
31 Jednocení a okopávka	Z-4611+6-KPRN-270, ručně dojednocení a okopávka	5-6	186,25	203,19	1743	375	2118
33 Plečkování III	Z-4611+P-153	6	1,20	1,48	16	2	19
34 Aplikace insekt. (Pirimor 0,4 kg)	Z-4611+P-900 (2 postřik.) 18	6-7	0,89	1,16	13	3	16
19 Etapa celkem			194	212,58	1843	396	2239
35 Sklizeň skrojků a doprava	6-OCS, S-5-T	10	5,38	6,77	77	17	94
36 Sklizeň bulev a doprava	KS-6, S-5-T	10	5,03	6,31	72	15	87
37 Silážování skrojků, rozhrnování, dusání	ručně, CAS-10	10	9,09	9,67	90	19	109
38 Doprava řízků	Praga V3S	10-11	1,70	2,04	20	4	24
19 Etapa celkem			21,20	24,79	259	55	314
40 Celkové přímé náklady			236,51	263,47	2369	509	2878

[Key on following page]

Key:

1. Operation
2. Technical equipment of labor
3. Month when operation completed
4. Requirement of manual labor (h)
5. direct
6. expanded
7. Direct wages (JZD) (Kcs)
8. Social security contributions (JZD) (Kcs)
9. Direct wages (state farms) (Kcs)
10. Light plowing of the stubble
11. Harrowing after plowing
12. Fertilizing (1.5 t)
13. Liming (0.5 t)
14. Spreading of manure (35 t)
15. Regular plowing
16. Deep plowing
17. Application of herbicides (Pyramin 5 kg)
18. (2 sprayings)
19. The stage - total
20. Dragging and harrowing - 2 times
21. Fertilizing (0.5 t)
22. Combiner operations
23. Application of herbicides (Avadex 2 l, Burex 4.5 kg)
24. Harrowing after the application of herbicides
25. Sowing (2.8 kg)
26. Rolling
27. Application of herbicides (Betanal 6 l)
28. Breaking up the crust
29. Weeding I
30. Weeding II
31. Thinning and hoeing
32. Manual thinning and hoeing
33. Weeding III
34. Application of insecticides (Pirimor 0.4 kg)
35. Harvest of beet cuts and transport
36. Harvest of beet roots and transport
37. Silaging of beet cuts, spreading and compacting
38. Transport of sliced beets
39. manually, CAS-10
40. Total direct costs

Therefore, the maximum manual labor and production costs are required in the third stage of this specific technological procedure (80.68 percent of total labor-intensiveness of sugar beets), particularly due to manual thinning and hoeing. Efficient equipment with a minimum manual work requirement is used in harvesting and, thus, that stage is almost 10 times less labor-intensive than the preceding stage.

Total production costs for sugar beets are Kcs 2,369 in the JZD and Kcs 2,878 in stage farms. Expanded labor-intensiveness is 263.47 hours per hectare. The procedures for other crops follow the same method as in the calculation of production costs of sugar beets.

### Seasonal Characteristics of Crop Production

By its dependence on natural conditions and its irregular requirement for manual labor and labor contents during the production cycle, crop production is characterized by several seasonal peaks.

Table 2 presents the seasonal characteristics of total labor requirements in the course of the year. From that it is evident that most crops require more labor in April and May (spring preparation of soil, sowing, after-sowing treatment) and in the autumn during the harvest and when sowing winter crops (August, September, October).

Table 2

Seasonal characteristics of total work requirements during the year

Tabulka 2

#### Sezónnost celkové potřeby práce v průběhu roku

1	Plodina	2 Podíl celkové potřeby práce v jednotlivých měsících [%]											
		1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
3	Pšenice ozimá	0	1	11	11	2	0	5	30	33	7	0	0
4	Pšenice jarní	0	0	11	17	10	0	27	32	0	3	0	0
5	Žito ozimé	0	2	8	12	2	0	16	24	30	6	0	0
6	Ječmen jarní	0	0	6	8	21	0	14	14	29	4	4	0
7	Ječmen ozimý	0	0	2	6	4	0	49	25	6	8	0	0
8	Oves	0	0	6	8	20	2	0	26	28	5	4	0
9	Kukuřice na zrno	0	0	2	7	12	5	0	3	1	44	27	0
10	Hrách jedlý	0	0	6	26	0	7	8	40	10	9	0	0
11	Bob	0	0	9	25	8	0	0	24	24	8	2	0
12	Řepka ozimá	0	1	1	5	0	0	35	47	6	5	0	0
13	Mák	0	0	2	3	70	1	0	17	2	4	1	0
14	Cukrovka	0	0	1	2	40	40	0	1	6	10	0	0
15	Krmná řepa	0	0	0	3	25	25	0	2	21	24	0	0
16	Sezečka cukrovky	0	0	1	2	23	15	0	1	7	27	24	0
17	Semenačka cukrovky — pěstování z přesazované sazečky	0	0	1	56	8	10	1	5	8	6	5	0
18	Semenačka cukrovky — pěstování z přímých letních výsevů	0	0	1	1	1	39	22	12	12	5	5	2
19	Čekanka	0	2	2	2	57	32	0	1	1	0	5	0
20	Krmná kapusta	0	0	1	8	3	10	4	1	0	33	40	0
21	Brambory rané	0	0	15	15	1	29	1	29	0	5	5	0
22	Brambory stolní	0	0	1	4	6	1	2	34	26	23	3	0
23	Brambory průmyslové	0	0	0	5	7	1	2	2	38	41	4	0
24	Brambory sadbové	0	0	0	5	4	10	10	25	27	16	3	0
25	Len	0	0	1	3	1	0	27	38	19	11	0	0
26	Kukuřice na siláž	0	0	1	6	9	4	0	1	25	39	15	0
27	Směska ozimá na zel.	0	2	3	37	31	0	0	14	13	0	0	0
28	Směska jarní na zel.	0	0	6	12	5	31	34	4	8	0	0	0
29	Vojtěška na zel.	0	2	6	2	4	35	20	13	14	4	0	0
30	Jetel na zel.	0	1	7	4	7	40	12	14	15	0	0	0
31	Louky	0	0	0	13	0	21	40	0	26	0	0	0
32	Kmín	0	0	4	14	5	13	22	12	3	26	1	0
33	Česnek jarní	0	0	0	35	0	1	1	31	31	1	0	0
34	Česnek podzimní	0	0	0	1	1	1	32	32	2	34	0	0
35	Zelí pozdní — přímý výsev	0	0	2	1	4	21	22	7	5	10	28	0
36	Květák na záhon	3	3	11	11	12	12	12	12	12	15	11	0
37	Chmel	0	0	0	5	22	1	1	31	33	3	2	2

Key:

1. Crop
2. Share of total labor required in individual months ((in percent)
3. Winter wheat
4. Spring wheat
5. Winter rye
6. Spring barley
7. Winter barley
8. Oats
9. Grain maize
10. Edible peas
11. Fava beans
12. Winter rape
13. Poppies
14. Sugar beets
15. Fodder beets
16. Sugar beet seedlings
17. Sugar beet seed plants - cultivation from transplanted seedlings
18. Sugar beet seed plants - cultivation from direct summer sowing
19. Chicory
20. Fodder cabbage
21. Early potatoes
22. Comestible potatoes
23. Potatoes for industrial purposes
24. Planting potatoes
25. Flax
26. Silo corn
27. Winter green fodder mix
28. Spring green fodder mix
29. Alfalfa for green fodder
30. Clover for green fodder
31. Meadows
32. Caraway
33. Spring garlic
34. Late garlic
35. Late cabbage--direct sowing
36. Cauliflower for vegetable beds
37. Hops

Technological cards provide a suitable basis for the assessment of labor required during the year for individual crops. Agricultural enterprises which have already processed their technological cards have an edge when compiling their seasonal operations plans, having successfully mastered the deployment of machine technology and adequate crews of seasonal workers.

A properly prepared seasonal plan, assurances of sufficient technology and labor forces and daily control of operational procedures guarantee correct assessments of completed work.

\*\*\*

Several factors affect operational costs in crop production. Some are predetermined, others may be considerably influenced by the management of the enterprises and by other workers. The standard of organization of labor and management, the deployment of an appropriate labor crew in certain conditions of production, and the quality and amount of work completed often differ markedly even in enterprises operating under the same natural conditions. Every production enterprise must, therefore, scrutinize the fulfillment of the assigned production tasks and draw conclusions from the ascertained facts which may be reflected in rewards.

One of the methods to assess correctly the work performed and to evaluate the expenditure of wages payable is the compilation of adequate data on work norms in terms of requirements of labor and operational costs within the enterprise and in enterprise subdivisions.

9004

CSO: 2400/265

SEMINAR HELD TO OUTLINE 1983 TRANSPORTATION SYSTEM GOALS

East Berlin DDR-VERKEHR in German Vol 16 No 4, Apr 83 (signed to press 4 Mar 83) pp 98-102

[Editorial staff report on management seminar of Ministry for Transportation for leading cadres, held in Gotha, 24-25 February 1983: "Demanding Tasks in Passenger and Freight Transportation"]

[Text] On 24 and 25 February this year's management seminar of the GDR transportation minister was held at the school of engineering for transportation enterprise technology in Gotha. The seminar's topic was the analysis of the Fifth Conference of the SED Central Committee and the deliberation of the SED Central Committee Secretariat with the first kreis secretaries regarding the implementation of the national economic plan in the transportation industry in 1983. A cordially welcomed guest was SED Central Committee Politburo member and First Deputy Chairman of the GDR Council of Ministers Alfred Neumann who brought management personnel and all transportation industry workers greetings and an expression of appreciation from the GDR party and government leadership for the work they had done, which is considered an important contribution to strengthening the GDR and preserving peace.

Work Concentrated on Three Basic Issues

Regarding future work, Alfred Neumann listed three basic questions which necessitate even higher quality in the management of every transportation process.

"First: The important thing here is the greater reduction in national economic production consumption, above all through a reduction or elimination of inefficient shipments.

"Each transportation process must take place in an optimum fashion and must be correctly interlocked in terms of maximum effectiveness. In the final analysis, we must get to a point where we know specifically just what kind of transportation effort is contained in the vertical and horizontal production process behind each important finished product.

"If we steadily and persistently move forward in this direction, then we will step by step contribute to the increase in the national income.

"Second: Minimizing the transportation effort and achieving a high, uniform rhythm in transportation activities during each 10-day period, requires the goal-oriented cooperation of the central government agencies as well as the local councils with the branches of the transportation industry. All loading and unloading enterprises or combines must help raise production cooperation in social production to such a high level that the full utilization of the potential advantages of socialist production conditions and the great possibilities of scientific-technological progress will be guaranteed.

"Third: The fashioning of developed socialism requires a new quality in transportation industry management. This is something every government agency must be concerned with. Dynamic output increases in the transportation of passengers and freight depend absolutely on sticking to the plan and on proportionality, on the continuity of the social reproduction process. This is not going to be a gift that is going to be given to us; instead, these are products of human labor, the result of socialist consciousness development.

"The better we manage to achieve the completely new arrangement and evaluation of transportation--especially freight transportation--within the conditions and tasks of predominantly intensively expanded reproduction, the wider will be opened the gate leading to high effectiveness in all branches of the transportation industry. Here is what intensive economic development means: Along with a declining expenditure and simultaneously rapidly rising quality and effectiveness of social labor to transport more advantageously in a manner significant to the national economy.

"The gradual development of the superiority of our socialist transportation system over transportation activities in the capitalist system is to be attained only through the transition from the extensive development of the transportation industry to the predominantly intensive economic development of the transportation processes. To do that, we need the active cooperation of all other national economy sectors."

#### 1982--A Year of Further Progress

Minister Otto Arndt in his report indicated that further progress was made in 1982 in connection with the implementation of the transportation-policy concept. This progress can be documented as follows:

Through the increase in the efficiency of the railroads and inland navigation;  
Through branch-related and territorial rationalization measures of all phases and elements of transportation and transloading processes;

Through a greater contribution from the transportation system to the relief of the national economic material, equipment, and foreign exchange balance sheets; as well as

Through the reduction of the national economic freight transportation requirements.

Visible progress moreover can be seen in the improvement of the ratio between expenditure and result. This progress represents an important step on the way of transition toward intensively expanded reproduction.

The speaker stressed the close connection between the economic strengthening of the GDR national economy and the further fashioning of the developed socialist society in order thus to be able actively to contribute to the securing of peace and to the aversion of the danger of war. In this connection he made reference to the speech by SED Central Committee Secretary General Erich Honecker to the first kreis secretaries and declared that it is the seminar's objective to deliberate as to which forms and methods of work proved themselves during the practical application of economic strategy in the transportation industry and what must now be done above all in order to meet the higher requirements connected with the accomplishment of the planned tasks in 1983. Minister Arndt declared that the significantly bigger tasks arise from the new national and international requirements.

The speaker paid tribute to the achievements of the workers in all sectors of the transportation industry as a contribution to the implementation of the economic and social policy of the party of the working class. They are reflected in the following facts for the year 1982:

Compared to 1981, the railroads transported 11.5 million tons more. That amounts to almost 15 daily output units.

The share of the train movement performance handled with electrical traction rose from 22.1 percent to 25.7 percent.

In spite of unfavorable navigation conditions, inland shipping handled 4 daily output units more, in terms of shipment quantity, than in 1981.

Around 10 million tons of goods were shifted from the highway to rail or water routes.

Highway transportation, which consumes large amounts of energy, was reduced in terms of output by more than 20 percent as a result of which the share of highway freight transportation out of the total domestic transportation volume shrank from 28 percent down to 24 percent compared to the railroads and inland shipping.

It was possible definitely to reduce the transportation requirement in domestic transportation by 8 percent in quantitative terms and by 5 percent in performance terms.

For the first time, more than 20 million tons of goods were transloaded in the GDR's maritime ports.

It was possible to reduce the absolute energy consumption volume by 7 percent and the consumption of liquid energy sources by 5 percent.

#### More Effectiveness and Strengthened Material-Technical Base

These results and a large number of measures and results not mentioned here brought about a drop in the production consumption by 3 percent and in the cost rate, related to M100 of commodity production, by about M6.

The transportation industry's material-technical base was strengthened by the delivery of new diesel and electrical locomotives, new freight cars and passenger cars, new inland vessels, airline aircraft, trucks, buses, streetcar trains, by the commissioning of an additional 140 kilometers of electrified railroad lines, more second tracks, and more than 100 kilometers of new super-highways.

Minister Arndt came up with an on the whole very positive evaluation of the fact that the transportation industry's significance as a component of the national economy's reproduction process grew considerably among the territorial organizations, on the one hand, and in the individual economy sectors, on the other hand. The minister used this opportunity to express appreciation to all management personnel and, through them, to all transportation industry workers for the job they had done.

In spite of all of these positive results there are however also some as yet unused reserves toward the attainment of higher effectiveness and quality. This involves energy management, questions of punctuality and reliability in passenger transportation, more order and technological discipline, broad-ranging effectiveness of the results of science and technology, as well as the mastery of the management and planning of the transportation processes above all with the help of transportation standards.

According to the minister's words, the important thing is more and more to penetrate the transportation processes within the overall economic context, to make use of all intensification factors in order thus to increase the effect of work done.

#### Targets for 1983

According to the minister's statements, the main tasks for the year 1983 can be summarized as follows:

The national economy's commodity output goes up by 4-5 percent whereas on the other hand transportation performance must be reduced by 1.4 percent compared to the year 1982.

Division of labor between carriers must be made even more efficient with the goal of further reducing energy consumption.

In terms of points of main effort, it is necessary to guarantee a rapid output increase from the railroads and inland shipping coupled with a further reduction in highway transportation by at least 8 percent, with special emphasis on the reduction of sales and procurement shipments in the factory transportation sector.

Freight shipments by the railroads will be increased by 11.5 million tons.

Inland shipping will have to increase its transportation volume by more than 10 percent.

While maintaining equal performance levels, it is necessary further to improve the quality in commuter and student transportation regarding reliability and punctuality.

The performance increase in the maritime ports is about 10 percent.

The performance increase in border-crossing freight transportation is at least 11 percent.

The transportation industry must as a whole make a contribution to the improvement of the republic's balance of payments.

Production consumption must be cut by an additional 1.3 percent and operating costs must be reduced by 2.1 percent per M100 commodity output.

The transportation industry's industrial performances will rise to 102.4 percent, above all regarding motor vehicle repair work for the population, production of consumer goods, of rationalization equipment, of freight cars and passenger cars, containers, etc.

#### Order, Discipline, Safety

Touching on the responsibility of the managers, the minister said that there is an inseparable connection between the manager's role model effect with respect to his personnel force, his ability to act as political leader of our worker-and-peasant government, and the conscious socialist work ethic of his personnel force.

The minister underscored the diligent and duty-minded work of the 480,000 transportation industry workers, work which was sustained by a high personal commitment, often disregarding personal concerns, and at the same time he stressed the need for improving order, discipline, and safety in the work of all transportation branches.

This is why work in this field revolves around the following management tasks:

The important thing is to achieve a higher degree of discipline in the most comprehensive meaning of the word among all managers and workers on whose circumspect work depends above all the safety of shipment, transloading, and transportation processes and the important issue here involves their education in terms of safety-conscious conduct and the increase in personnel skill levels.

The important thing here is the exact compliance with all legal and service regulations under all conditions.

The important thing here is the optimum development of and the unconditional compliance with the technological system.

The important thing here involves the further perfection and equipment of all transportation industry sectors with the kind of transportation equipment by means of which human failure can be eliminated most extensively.

#### On Tourist, Commuter, and Student Transportation

On the topic of tourist, commuter, and student transportation, the minister said that good or poor work in this field has a very broad political effect, that the citizen's wellbeing can be promoted by the level of passenger transportation or that dissatisfaction can also be generated in this way. Minister Arndt continued as follows: "The entire complex of tourist and passenger travel therefore is not just another item in the plan but is a most profoundly political task with a high moral value for the job ethic of every worker in the transportation system and a special yardstick for the quality of the work done by the managers on all levels." In the minister's words, there was in the past justified criticism from the population relating to insufficient information and discourteous treatment by transportation industry workers on duty.

The change in this situation must be a special main point in management activity, in vocational training, and in the guidance and supervision process.

All of this is not a matter of lack of money but above all it is a matter of the attitude toward order, discipline, and safety and toward the discharge of personal responsibility.

#### Main Points of Scientific-Technological Work

Minister Arndt listed the following main points for scientific-technological work in the transportation industry:

1. Comprehensive and complex rationalization of transportation and transloading processes in the railroads and in inland shipping as well as of increasing combined shipments involving rail, inland navigation, and highways.
2. Scientific backup support for the changed performance structure in highway transportation as well as specific establishment of the consequences resulting from that with respect to the effective development of technology and economy.
3. Comprehensive rationalization of all energy-industry processes through solutions aimed at the reduction of specific consumption and substitution of liquid energy sources with domestic energy sources.
4. Rapid and effective increase in the use of microcomputer and robot technology in order to improve the technical and technological level in the main points of rationalization.

5. Reduction of the national economic transportation effort above all through the continuation and in-depth development of optimization and through comprehensive standardization of transportation work in all economy branches.

#### On Work with the Plans for Technical-Economic Measures

All of these tasks naturally are closely related to the TOM (Technical-Organizational Measures) plans of the combines, directorates, and enterprises. Investigations as to how one should work with these plans and how their effectiveness is to be estimated permit us to draw three final conclusions:

First of all, the important thing is to support government task requirements for the year 1983 regarding the saving of working time, energy, material, and costs, completely through measures of the science and technology plan.

Second, we must consistently fight for the accomplishment of the plans and in this connection we must not allow material-technical problems to be emphasized in an impermissible fashion when the plan targets are not attained.

Third, it is necessary to arrange and make visible the effects deriving from TOM plan measures in the enterprise reproduction process in a manner effective in terms of the plan.

After the minister in the further course of his speech had extensively covered production and the use of robots as well as rationalization equipment construction, he turned to the innovator movement. The economic results in this field kept growing also in 1982. This likewise involves re-use which increased by 25 percent. An important task in the context of government management activity, in the minister's remarks, involves the absolute specification of demanding innovator tasks which must be accomplished according to plan with high economic goals and their inclusion in enterprise plan balance sheets.

#### Planning, Balance Sheet Preparation, Accounting of Performances

Minister Arndt then directed the attention of the conference participants to the further perfection of national economic planning, balance sheet preparation, and accounting of transportation services and estimated that the experiences and results deriving from work with transportation standards in 1981 and 1982 confirmed the basic correctness of the course charted.

This also concerns the application of the new transportation balance sheet regulation and other legal regulations which, in turn, contributed to improved work with transportation standards. But practical activities in the field also revealed where better results can be achieved. Here we have, on the one hand, the need for achieving a higher quality level in the breakdown of the specified transportation indexes for the subordinate enterprises by the industry ministries and, on the other hand, the correct and on-schedule forwarding of the required transportation indexes by the enterprises to the particular carriers as a mandatory foundation for guaranteeing the reporting of the transportation requirement and contract conclusion. The process of transportation balance sheet

preparation and accounting of transportation standards, separated by centrally managed and locally managed economy, must be further improved. Wherever this accounting process is not carried out with the proper quality, the real determination of transportation standards is again impaired. The consequence is that the transportation standards do not yet form the foundation for plan implementation with the necessary consistency.

The estimate of the bezirks regarding the reality of the transportation standards forwarded to them for the first quarter of 1983 show a different picture according to the minister's remarks. There is general confirmation that the determination of the necessary transportation requirements on the basis of missing or insufficiently informative documentation and empirical values is still not being accomplished in sufficiently realistic terms and that the breakdown of the economy sectors by bezirks does not yet agree with the existing reproduction conditions. In view of this situation, the speaker drafted three conclusions:

1. It is necessary in all sectors to fight even more resolutely for compliance with transportation standards and for the diesel fuel quotas and their exact accounting must be closely checked.
2. The important thing in drafting the plan for the year 1984 once again is to implement higher quality and more realism regarding transportation standards.
3. The Transportation Ministry, together with the bezirks, should examine how the instruments available for planning, controlling, and accounting the transportation standards can be simplified and can be made clearer in order to facilitate their handling. It is also worth deliberating on regulating the advance specification and distribution of transportation standards through a mandatory form, such as, for example, through a transportation checking procedure.

#### Economic Accounting Tasks

Minister Arndt in detail then covered the requirements connected with the further perfection of economic accounting; after all, during the 1980's, the important thing is to combine planning and economic accounting into an organized whole. From the transportation industry's viewpoint, the task is to step up the compulsion toward reducing transportation requirements and toward better utilization of transportation space in the national economy and to make the performance evaluation effort as well as economic incentives in the enterprises and combines of the transportation industry even more effective with regard to higher effectiveness of the reproduction process. The new domestic freight transportation rates which took effect last year are aimed at better reflecting the national economic expenditure for all transportation activities in the cost of the enterprises which use these transportation services. At this time, the enterprises however still have the possibility of including such price changes in their plans. It has now been provided that the transportation costs in the national economy's combines and enterprises be limited and that these limits at the same time be connected with [cost] reduction requirements. Besides, it is the intention, in connection with future industrial price

changes, to include the transportation costs step by step in the sales prices in order, in domestic transportation, in general to charge the shipper with payment--something which currently is the case only to the extent of 50 percent. In this way we also want to establish uniform responsibility of the producers for planning and utilizing transportation services and costs.

Finally, full-utilization norms are to be introduced in a mandatory manner for maximum possible utilization of transportation space for types of goods and car categories; failure to comply with these norms will lead to financial penalties.

In general, Minister Arndt thought that the new domestic freight transportation rates proved themselves and that they stimulated not only a decline in the transportation expenditure but also influenced the correct choice of the carrier that will be most favorable for the national economy in terms of energy and cost.

#### Railroad and Inland Shipping Performance Development

Regarding the performance development of the railroads and inland shipping, the minister said that the performance share of the railroads will go up to 75 percent in domestic transportation. The nucleus for increasing the performance capacity of the railroads consists of the accelerated electrification of the railroad line network. The minister therefore demanded that maximum plan discipline be ensured for each individual sector by all participating production cooperation partners, especially since the heavy expenditures obligate everyone to make maximum use of the advantages of modern traction systems. This equally involves the increase in the average utilization of freight trains and the improvement of traction vehicle utilization technology. Just as important a task is the shortening of freight car turnaround time by more than 5 hours and that demands a high level of discipline on the part of all those involved. In this connection it is important to build up and further develop the existing technologies in order thus to keep step with the development of performance requirements. Changed service structures make it necessary to adapt certain elements in the transportation and production processes to this altered service structure, such as this is currently the case in the entire sector of local work, for the short-haul freight train network, for piece-goods shipment, and for container transportation.

The overall technology of the railroads will be effective--as Minister Arndt stressed--if local technological plans and network technologies are so coordinated with each other and are so interconnected with each other that effects which have been achieved will not be undone again in another place. The minister said that railroad station servicing plans, locomotive turnaround plans, and freight train assembly regulations are important elements here.

The locally still widely differentiated work being done here therefore requires us, together with the specialized agencies of the bezirk councils and the railroad divisions, in a goal-oriented manner to organize exchanges of experience and performance comparisons for the purpose of applying the best experiences, using the Odessa-Ilyichevsk method.

After the minister had covered the topic complexes relating to the expansion of the number of access points leading to the railroad net, development of piece-goods transportation and of container shipment, he addressed himself to the performance development in inland shipping. The shift of freight from rail to waterways must be undertaken above all if this would mean that the deadhead runs of the vessels could thus be utilized. The gradual introduction of night-time navigation must be pushed in order thus to speed up the entire fleet movement. Finally, the important thing in inland shipping is likewise to increase the number of access points leading to the waterways network. This means that the inland shipping-waterways combine, in close cooperation with the bezirks, must step up its efforts to obtain additional shipments for inland navigation. This requires favorable transportation offers for the customer and the introduction of effective technologies. In the combine itself, this calls for consistency in management organization, close cooperation with the local government agencies, the improvement of work in the field of science and technology, as well as in the commercial field.

#### Consequences Regarding Highway Transportation

The change in the division of labor in the transportation industry naturally also has consequences as far as highway transportation is concerned. In the words of Minister Arndt, this is connected with an even heavier concentration of public motor transportation on its primary function, that is to say, the supply and distribution tasks, and with an altered division of labor between public motor transportation and factory transportation. The necessary highway transportation performances must increasingly be handled by public motor transportation; factory transportation must be restricted even more decisively to the area of technologically determined shipments. Currently available studies tell us that between 60 and 70 percent of the entire transportation volume consists of factory transportation. The studies also show us however that the average utilization is below the values and that the specific diesel fuel requirement is above the values shown by public motor transportation. "The formation and work of large-scale transportation associations," the minister noted, "also showed that the procurement and sales shipments, belonging to the performance scope of factory transportation, can be coordinated among each other and with those of public motor transportation and that significant national economic savings can be achieved here. The important thing is to make sure that both the freight transportation quantity and the freight transportation performances for public motor transportation and the sales and procurement shipments for factory transportation must be included in the GDR transportation balance sheet, to be drafted by the Transportation Ministry, as well as in the territorial transportation balance sheets to be worked out by the bezirk councils, starting in 1984.

#### Territorial Rationalization

The emphasis in measures aimed at territorial rationalization is even faster to guarantee the increase in the capacity of the railroads and inland shipping and to secure and develop the effectiveness of the enterprises in motor transportation as well as the transportation combines in spite of the changed service structure. Minister Arndt pointed out that the currently most advanced

form of territorial rationalization is represented by the example of Kreis Aue. The work being done there is concentrated on joint responsibility for the procurement of shipment and transloading capacities as the most important prerequisite for the further shift of transport shipments to the railroads and the increase in their capacity. The initiative at Aue is aimed at increasing the capacities for reception and shipping, such as, for example, in the case of piece goods, through close cooperation, to tap reserves available in freight car turnaround time, jointly to use existing facilities of the railroads and the enterprises, to develop delivery relations in an optimum fashion, to rationalize loading and unloading work, and, finally, to organize effective cooperation between the railroads and motor transportation. By means of these measures it was possible last year alone in that kreis to save costs in the amount of M3.6 million and 1.1 million liters of diesel fuel. Minister Arndt appealed to all management personnel quickly to generalize and to apply, republic-wide, the basic ideas behind this example, along with the broadest involvement of the workers and under the guidance of the territorial government agencies and through teamwork between the transportation industry and the economy as a whole.

#### Materials Management, Norms, and Standards

Here are the target directions in the material management field:

1. All initiatives must be promoted toward the most economy-oriented use and effective employment of material resources made available.
2. Work with norms and norm guidelines as well as with standards of material consumption must be improved with a view to their economic effect.
3. Recycling and reworking services must be increased through more effective maintenance technologies and closer production cooperation services with the primary partners in the economy with the goal of replacing additional imports of spare parts and subassemblies.
4. Engineering diagnosis and condition-related maintenance must be applied even more broadly.
5. Active corrosion protection for stationary installations and transportation equipment must be increased.

#### Energy Economy Problems

Minister Arndt then very thoroughly covered energy industry questions. This first of all concerns the replacement of liquid energy sources and, next, the reduction in specific energy consumption.

#### Regarding the First Complex:

The essence of the replacement of liquid energy sources is and remains the electrification of the line network of the German railroads. This year, 151 kilometers and next year 200 kilometers are to be placed in operation. On top of that we have the replacement of engine gasoline with liquid gas and the

preparation for the switch to natural gas. A pertinent program for the conversion of taxicabs in Berlin has been carried out. This effort was also started in 1982 in Erfurt, Magdeburg, Gera, Leipzig, Halle, and Neubrandenburg. Further conversions to liquid gas for vehicles in Berlin will be made this year, and this will also include the taxicab enterprises in Potsdam, Halle, and Leipzig, as well as several hundred utility trucks in the capital, which will be using natural gas. This program is to run until 1988. Considerable quantities of liquid fuel can then be saved each year through this program's implementation. Another main point consists of the conversion of heating oil systems--an undertaking which must be completed this year.

#### On the Second Complex:

In the public transportation system, it was possible to reduce the specific energy consumption by 7.5 percent in 1982 as compared to 1981. Along with the savings in 1981, this corresponds to a proportional fulfillment of the five-year plan target. In spite of this progress--which Minister Arndt documented convincingly with a wealth of individual measures--specific consumption reduction for the diesel traction of the railroads and in freight motor transportation was not achieved according to his remarks. In 1983, the specific energy consumption of the railroads for diesel traction is to be reduced by 4 percent, for the maritime fleet by 5 percent, for the inland fleet by 11 percent, for freight motor transportation by 4 percent, and for passenger transportation with KOM [motor buses] by 1 percent. Here are suitable measures for accomplishing these tasks:

Computer-assisted operational technologies for the transportation equipment of all carriers;

Development and comprehensive utilization of on-board microcomputers and trip recorders as well as comprehensive use of diagnosis technique in maintenance sectors;

Use of electronic maximum-speed limitation systems;

Rationalization of adjustment [shut-down] services;

Technical perfection of ignition and carburetor systems.

#### On Complex Basic Assets Reproduction

Minister Arndt mentioned three groups of problems regarding the topic of complex basic assets reproduction which in the future must constitute a main point in management activity.

First of all, the important thing is to achieve a high degree of utilization of basic assets which above all also result from the new conditions of division of labor and performance development.

The main point here consists of transportation equipment. To achieve a higher degree of utilization and a faster turnaround time for railroad cars, the

important thing is here again quickly to generalize the lessons learned by the most advanced collectives such as they are reflected in the optimum utilization values, and to turn them into criteria for the work of all collectives. Moreover it is necessary to fashion all factors influencing freight car turnaround time in such a manner that they will represent the optimum in their totality. Both ways can be attained only through a higher level of technology and work organization.

Similar factors also apply to the better utilization of the country's inland vessels.

The speaker noted that, in the sector of highway transportation, the decline in dynamic utilization is entirely welcome and is an expression of the altered performance structure; on the other hand, the decline in static utilization clearly points to an excessively high effective-mass inventory and its insufficient utilization in production. This brings up conclusions regarding the shut-down and sidelining of utility motor vehicles and prime movers.

Effective utilization of the country's ocean-going merchant fleet in maritime transportation must also be guaranteed through improved operational concepts.

Second, it is important to make the entire maintenance effort more effective. This applies equally to railroad locomotives, to inland ships and utility motor vehicles in border-crossing freight motor transportation. It is necessary quickly to initiate effective measures aimed at reducing the repair workload. The minister suggested that the proven methods of quality control procedures be adapted to the new conditions in terms of contents and that they be implemented. In all enterprises and duty stations it is moreover necessary to undertake thorough trouble-factor and quality studies in the production, construction, and repair processes. Through improved maintenance and repair, it is necessary to guarantee a higher availability level in the existing motor pool and step by step to achieve the necessary reserves of freight cars, locomotives, and utility motor vehicles that are needed by the national economy.

Third, it is necessary to use investments in a performance-related and effectiveness-related manner with every degree of consistency.

The transportation industry's investment activities must be managed and planned as a uniform process of basic assets reproduction. The transportation industry's investment volume will be concentrated on the following:

Material-technical measures to increase the capacity of the railroads and inland navigation;

The creation of further prerequisites for ensuring the foreign-trade requirements with a high degree of foreign-exchange effectiveness;

The rapid transfer of the results of science and technology into practical activities with emphasis on robot and microcomputer technology.

The minister then went into detail in discussing intensively expanded reproduction in the highway system. The basic idea here is to ensure the usability of highway traffic installations in accordance with national economic requirements with the help of available funds for investments and maintenance.

This requires the following:

First of all, concentration of maintenance processes to the assurance of highway surface usability and the guarantee of long-term utilization of existing highway traffic installations and

Second, elimination of the serious scattering of capacities and development of high-performance enterprises on the bezirk level which--with productive technologies and modern organization--take care of highway administration, maintenance, winter-time road service, rationalization equipment production, and traffic organization.

#### Effectiveness and Costs

Minister Arndt termed the degree of production consumption reduction and operating cost reduction as the combined expression of transportation system work effectiveness. An operating cost reduction of more than 2 percent is to be carried out in 1983. Presently, work with the cost concepts for long-term cost reduction studies is not yet satisfactory. In general, more attention must be devoted to cost development. This is all the more important since unplannable costs for damage, losses, contract fines, interest payment, and damage restitution are still too high. It is necessary, on all management levels down to the work teams, to work with specific and accountable cost reduction requirements and exactly to check on their fulfillment. Minister Arndt especially alerted his listeners to the fact that the results of science and technology, energy and material management, utilization of basic assets, and working time and, last but not least, the quality of management itself as factors of intensification are expressed in the reduction of operating costs. "Constant calculation and saving at every item and checking on how funds are being managed--these things are therefore more important than ever before."

#### Tasks in the Capital

In another part of his report, the minister stressed the responsibility of all transportation industry workers for the development of the capital's transportation system. "That is quite obvious," the speaker said, "because transportation activities are particularly heavily concentrated in the capital, because manifold transportation connections with all bezirks originate or terminate here, and because Berlin at the same time is an international transportation center." Transportation Minister Arndt mentioned the following as essential tasks:

Continuation of transportation development of new residential areas with electrical means of transportation and creation of a higher traffic frequency for important connections all the way to the downtown section;

Electrification of railroad lines from the Glasow Dam branch including the Schoenefeld and Schoenefeld--Berlin-Gruenau railroad station;

Steady passenger commuter traffic with simultaneous improvement of punctuality and cleanliness levels;

Perfection of operating technology in order to guarantee even more effective transportation-wise development of the capital as an economic, scientific, and intellectual-cultural center.

#### Subjective Factor and Manager's Example

Minister Arndt concluded his report with a reference to the fact that the ability of each individual manager and the well-organized and goal-oriented mobilization of the workers are important prerequisites for successful task accomplishment. In this connection he made reference to the observation by SED Central Committee Secretary General Erich Honecker in addressing the first kreis secretaries to the effect that the full discharge of personal responsibility for each individual's own work sector, creative approach to work duties, conscious labor discipline, a clean attitude toward socialist property, as well as political knowledge and technical skills of the workers essentially influence the growth of labor productivity as subjective conditions.

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UNFOLDING OF HUNGARIAN ECONOMIC REFORM TRACED

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[Article by Gerd Biro, general director of Hungarian Chamber of Commerce]

[Text] One rather easy way to arrive at an understanding of the major issues affecting Hungarian economic policy is to look at two complementary trends: the adjustment to world market conditions and the additional reforms of the economic control system.

Of all the CEMA member nations, Hungary's economy is the most open and the one most dependent on the world market; as a consequence, changes in world market conditions pose more of a challenge to Hungary than to the other CEMA nations.

Thus, it is not merely chance that Hungary has played something of a pioneering role in the onward development of economic controls within socialist planned economies.

In Hungary, it is widely viewed as a great success that there was a recognition about two decades ago that economic controls are particularly important for the formulation and fulfillment of economic policy plans and that this realization in turn led to the introduction of the 1968 reforms.

The most significant aspect of the reforms without a doubt was the separation of the economic plan from the industry plan. The abolition 15 years ago of obligatory production plans for the separate industries was the starting point of getting both workers and management interested in adjusting to market conditions. Until then, workers and management of Hungarian industry had been interested primarily in fulfilling or exceeding centrally determined production goals. We are therefore dealing here with a fundamental change which was helped along by the development of independent business strategy and marketing activities.

In the absence of these reforms introduced 15 years ago, Hungarian economic performance would surely have been less prodigious.

Since industry has primarily been interested in sales since 1968, it takes demand into account as regards quality, selection and delivery schedules. But this trend was not able to become fully effective over the past 15 years because a number of industries still occupy a monopoly position and because in many fields there still is no buyer's market.

But the slowdown in growth and the need to export connected with it as well as support for small and medium-sized industry are expected to make for greater competition. This trend would be very helpful in that it would force the bigger firms to pay greater attention than heretofore to a lowering of production costs.

#### Additional Modifications

The present agenda calls for stepping up the reforms. This should lead to the introduction of further modifications by 1985 which are designed to strengthen the role of pricing as a yardstick for industry; to devise efficient ways of calculating cost and thereby help develop an institutionalized system of improved marketing.

This system of economic controls will continue to be based on an organic combination of planning and market forces—with the economic plan establishing the parameters for the goals and development trends but not containing any specific instructions for industry to follow. Material interest will serve as an industry guideline; the role of profit is to be enhanced by supporting the entrepreneurial spirit through a restriction on monopolies and a simultaneous expansion of competition.

But this will also bring about uneven development throughout industry and this in turn will not only lead to economic problems but also to social ones which will have to be resolved. This will have to be done by creating an atmosphere where the public will consider it an obvious or at least inescapable fact that some industries will develop faster than others leading to the establishment of new industries of new kinds whereas others may have to adjust or even close down—which means that the standard of living of that group of workers and of individual workers will depend on actual results. But to achieve those conditions, there is the additional need to create the abovementioned buyer's market—which, however, is made difficult by the present Hungarian foreign trade situation.

But since about two-thirds of all Hungarian imports consist of raw materials, semi-finished goods, initial products and energy, the share of industrial consumer goods is rather small which works against supporting competition because limited competition in the field of imports does very little to help develop market-oriented, entrepreneurial attitudes.

We are therefore dealing here with complementary trends—where intensive Hungarian participation in the international division of labor can and should supply a market-oriented business strategy with the necessary impulses. This market orientation must perforce lead to an adjustment to the demands of the world market and thus to optimum Hungarian input in the international division of labor equation.

According to unanimous forecasts put out by the OECD, by UNIDO and the World Bank, the annual growth rate in world trade throughout the eighties will be about 7 percent. Although this rate is smaller than it was in the preceding decades, it is still twice as high as that expected for industry. This means that the most important impulses for the development of industry will still be coming from world trade.

In formulating a Hungarian economic policy, one will therefore start out by saying that intensive participation in the international division of labor would not only be helpful but would have to provide the basis for all strategic decisions—where the organizational structure of Hungarian industry will depend on the decisions which take into account both world market trends and conditions inside Hungary itself.

Exports of Hungarian industry in convertible currency already rose faster than production in all fields throughout the seventies. Growth rates were especially high in machine-building, foodstuffs; in some chemical products and in clothing.

The fact that export growth was distributed over a great many branches of industry proves that export policy has not been sufficiently selective and that Hungarian industry has hardly been given any impulses toward increased utilization of whatever advantages it has.

This issue is of particular importance primarily because the forecasts are more or less agreed that the challenge to Hungary's economy in the eighties will come from competition on the part of the cheap labor countries on the world market. This challenge will be the more intense due to higher capital costs and it is therefore to be expected that higher raw material and energy costs and the deterioration of the international exchange picture resulting from them will take second place among Hungary's foreign trade problems and/or the factors which impede her efforts to raise her exports.

Although the forecasts have not been as accurate over the past few years as they were previously, it is still imperative to establish priorities in the macrosphere of industrial policy and in the microsphere of individual firms that will create favorable conditions for achieving relative advantages.

The role of marketing Hungarian industrial products is exemplified by the fact that exports in 1982 rose 4.9 percent while production rose by only 2 percent.

Production per worker in 1982 rose by 4.1 percent compared to the preceding year—with production per working hour even increasing by 9 percent, which is attributable to the changeover to the 5-day work week.

This continued the multi-year trend of productivity growing twice as fast as production. The number of people employed in industry is declining by about 2 to 3 percent annually—which comes to 30,000 to 35,000 workers. By world standards, however, this situation cannot be termed satisfactory by any means, since it takes the Bosch parent plant just  $2\frac{1}{2}$  hours to assemble a refrigerator, for example, whereas it takes the Hungarian plant producing the same refrigerator under a license from Bosch  $4\frac{1}{2}$  hours. And there is another thing: whereas per capita production in Hungary is about one-half to two-thirds of what it is in the highly developed West European countries input in Hungary is greater and net efficiency thus is less.

For the most part, as we said earlier, this has to do with the fact that Hungarian industry does not pay enough heed to costs—using more materials than comparable firms in the West to turn out the same product for example.

The problem is also tied to insufficient efficiency of investments and to the fact that the rate of growth in this sector was appreciably higher than that in production.

#### Forms of Cooperation

In expanding economic relations with the OECD member countries, cooperation between separate plants can and should continue to play a vitalizing role. As is known, about one-half of all the East-West cooperation agreements were concluded with Hungary and from the Hungarian point of view, this type of economic cooperation continues to occupy the center of attention.

At present, it appears to be particularly useful to include small and medium-sized industry on both sides in the cooperation schemes and to devote increased attention to cooperation in the third-country markets. For another thing, the aim will be to induce the large Western firms to establish at least some of their new plants in Hungary.

Above all, there are still a great many unused opportunities for establishing mixed firms in Hungary.

In this connection, it is worth mentioning a joint ordinance issued by the finance and foreign trade ministers which was published in No 69/1982 of the Hungarian legal gazette which spelled out the rules for establishing joint enterprises in duty-free areas. These so-called off-shore enterprises are permitted to keep their books in convertible currencies; to keep any funds exceeding the capital stock either in domestic or foreign banks and to dispose freely at all times of accounts receivable (except for the capital stock) in convertible currency. Joint enterprises in duty-free areas also are not subject to Hungarian regulations with regard to wages and salaries, prices and investments or to state control, control by supervisory boards or with regard to the assessment and size of the different capital funds.

In addition, the attractiveness of this type of arrangement might be further enhanced due to the fact that agreements were concluded during the past few years which repealed double taxation and that excess profit taxes at 40 percent are relatively low by international standards.

There already are some examples that might be used for further cooperation and might lead to a greater Hungarian role in the international division of labor.

In December 1982, for instance, the Hungarian pharmaceutical concern Biogal and the Swiss firm of Zyma, a subsidiary of Ciba-Geigy opened a plant under joint auspices in Debrecen in eastern Hungary. This is the first joint enterprise in the pharmaceutical industry in Hungary--which produces the enzyme Catergen. To realize this project, Biogal was the first Hungarian firm to receive a loan from the Central European International Bank.

Biogal has since started on a new project which takes advantage of the high technological standards required for the production of pharmaceuticals in turning out cosmetics which are primarily earmarked for export. In late 1982, a separate joint company was set up and plans are to obtain foreign capital for it.

In spite of the severe world economic crisis, the Hungarian machine-building industry produced goods for export amounting to \$ 950 million in convertible currency in 1982--which was an increase of \$ 100 million as compared to the year before. In particular this involved the export of railroad equipment; harbor facilities; cables and telephone exchanges; vacuum-technical machinery and medical equipment.

#### Large and Small

Also in 1982, the share of goods imported for convertible currency--raw materials, semi-finished goods and initial products--declined by about 10 to 12 percent as compared to the preceding year. Plans for 1983 call for a 1 to 2 percent increase in industrial production but for no rise in hard currency imports. But it should be noted that Hungarian industry has become particularly import-intensive over the past decades. By the late seventies, each percentage point of industrial growth was matched by almost 2 percent growth in hard currency imports.

The share of small crafts cooperatives in the export of industrial products presently stands at 8 percent. In 1982, the growth rate of production of these cooperatives was 3.9 percent which is about twice as high as that of state-owned industry. In 1983, too, the cooperatives' rate of increase in both production and exports is expected to exceed that of the state-owned industries. Opportunities for further growth in this field are there because of the fact that the small crafts industry which is already exporting a lot is now being joined by even smaller enterprises which are presently satisfying local demand in the main but are capable of producing specialty goods in small series.

In addition, the need to adjust to demand is usually much greater with the cooperatives than with the state-owned industries, since available stocks and financial resources do not permit them to incur anything like substantial marketing losses.

On the other hand, the cooperatives are often faced with organizational problems when it comes to exports, since it is not always profitable for the specialized foreign trade companies to concern themselves with the cooperatives' relatively small output and conversely since it does not pay for the cooperatives themselves to set up a special foreign trade department. That is why increased efforts are being made to devise organizational structures which might facilitate exports of smaller quantities of goods. There are some specialized foreign trade organizations, for example, which have set up special departments for this purpose and there are some other foreign trade companies which deal with this aspect exclusively. It is likely, however, that further organizational steps will have to be undertaken in this field.

The increasing importance of the cooperatives for the economy and for public life is among the most significant new trends in Hungary and also happens to be one of the factors responsible for the successes achieved.

The main thing is that the cooperatives' concern and that of their members with material advantage serves to provide the planned economy with new impulses. Next to that of the state, the property of the cooperatives continues to be a form of socialist property. The difference between them consists primarily in size, since the commercial cooperatives in particular are smaller.

Furthermore, the cooperatives are independent--in other words, they are not under any ministry. Their programs are determined in members' meetings where the chairman of the cooperative is also elected. The cooperatives thus are headed by elected chairmen whereas the state-owned companies are headed by directors or directors-general appointed by the government.

The positive results achieved by the cooperatives have been a more or less direct result of the active participation by the members in the decision-making process.

The small crafts cooperatives are also playing an increased role in the expansion of trade relations with the developing countries--which they supply with all the equipment needed for setting up small industries.

In its meeting of 28 August 1981, the presidial council adopted a legally binding ordinance which allows and promotes the establishment of small cooperatives of between 15 and 100 members. These cooperatives are expected to improve services further and to produce more consumer goods which can

only be turned out in smaller quantities as well as small quantities of certain items for export. For another thing, the cooperatives should bring about more sharing of responsibility among their members—who would among other things even decide on how much of their profits they would plow back into the cooperative and how much they would distribute among the membership.

One of the most important projects of Hungarian industrial policy is to expand the supply industry—which is closely tied to the expansion of small and medium-sized facilities most of which are part of the cooperative sector. Another reason why this project is so important and why it is tied to the need to improve Hungary's balance of trade and services is because imports of initial products throughout the seventies were the hard currency imports which increased most of all—at an average of 20 percent per year.

On the other hand, stepped-up expansion of specialized plants in the supply industry sector would offer greater opportunities to Hungary to participate in the international division of labor. One should note in this connection that Hungarian industry functions primarily as a supplier in most of the cooperation agreements concluded with Western firms. Further development of Hungary's supply industry could lead to a marked expansion of these activities.

The decisions reached on carrying forward the reforms of the economic control system introduced in 1968 have led to a modernization of the financial regulatory mechanisms in the microsphere of the companies and one of the key questions is how these mechanisms can help in the transfer of funds from one company to another.

Although it is obvious that the guidelines for the operation of this mechanism can only be arrived at in stages under present conditions, the condition of the Hungarian economy calls for stepping up this process, since every delay leads to further losses.

The various departments of the Hungarian chamber of commerce are also involved in the examination of the most effective ways of updating the economic control system. Their input consists of making their own experiences available and providing for suggestions from member companies in addition to working out studies on proposed decisions and ordinances.

The reforms are to deal with the internal structure of the companies with the type ultimately agreed on depending on economic conditions. For this reason, the company management will have to make the final decision. The goal is to enhance the efficiency of the various company components by introducing the appropriate accounting procedures and the necessary interest in material gain. At the same time, the sphere of activities of the company directors is to be substantially expanded.

Depending on the different possibilities and conditions within the several sectors of the company, there are likely to be a great number of different organizational structures devised.

Greater organizational efficiency of the large companies is of decisive importance for further reforms of the economic control system, since this is the weakest link of the Hungarian economic system.

Although the companies did become more independent as a result of the reforms, the actual rights and responsibilities of the individual companies remained largely unaffected. This slowed down adjustment to world market conditions which at least in part explains why Hungarian industry lags behind much more in the area of business organization than in the area of technology.

Concern on the part of the workforce of the individual plants of big industry in constantly increasing efficiency may turn out to be an effective tool to do away with a lowering of standards by and by.

#### Wage Policy, Material Gain and the Unions

The major aim of Hungarian economic policy is to increase competitiveness. But this can only be done, if more attention is paid to the intellectual resources of the country. These--as is often the case with relatively small countries that are short on capital--exceed industrial production capability by far. Their greater utilization would thus be tantamount to tapping one of the most significant economic reserves.

This would lead above all to more recognition of performance and of qualifications and this in turn would make leadership positions in industry more attractive.

It stands to reason that differences in income in a semi-developed country with a balanced social structure such as Hungary are a great deal smaller than those in highly developed countries or in countries faced with major social tension.

Over the past several years, however, the difference in income as between skilled members of the workforce and the directors and other higher-ups which had been quite small for decades grew even smaller.

This was not primarily due to the doubtless serious financial difficulties faced by Hungary but to the tendency particularly pronounced among the less efficient toward egalitarianism--a trend that still continues today. At present, at any rate, the Hungarian economy has the means to reward exceptional performance in an appropriate manner and certainly more munificently than heretofore. But the public is only slowly coming round to the idea that this practice constitutes less of a danger to a balanced society than egalitarianism which does serious harm to the economy.

The presidium of the labor unions, it might be noted, recently issued a statement on the intellectuals in which it pointed out that changed economic conditions make it even more necessary than heretofore to tap the in-

tellectual reserves of the nation and develop the creative energies of the intelligentsia. As far as the present situation is concerned, the fact is that there is not enough of a difference being made not only among the intelligentsia but also among some sectors of the workforce.

As concerns engineers—whose situation is a particular problem—the industry committee of parliament stated in its meeting of 11 October 1980 that their cumulative earnings do not attain the level of that of the workers until they are about 40 years old and it is worth noting that workers start earning money about 4 years earlier than do engineers.

Another thing worth noting is that, according to UNESCO, the number and/or share of engineers with diplomas per capita in Hungary already is greater today than in the FRG, in France or in Austria. That is why some of the engineers frequently do jobs that could as well be done by technicians. The seller's market prompts many engineers to think that it is most important to produce as much as possible and to disregard sales. This has now reached the point where engineers consider it more or less beneath their dignity to get involved in the sales organization.

To raise Hungarian competitiveness, it is therefore imperative to get a great many more engineers involved in marketing and management. At the same time, the earning capabilities of engineers must be improved step by step present economic conditions permitting—which would then make these very structural changes possible.

Earnings of the workforce should be pegged to performance more than before starting in 1983. In this manner, those elements which impede performance would be weeded out. Wages will not—as previously—be pegged to the profit growth rate as against the preceding year. Until now, the companies were interested in building up hidden reserves so as to be able to increase profits in subsequent years without much difficulty.

Starting in 1983, wages will be pegged to actual productivity which is no longer to be compared with the preceding year's figures. This is meant to direct the attention of the company to the achievement of higher profits. This reform of the wage system is expected not only to lead to utilization of previously hidden reserves but also to a growing differentiation among the various companies which in turn is to contribute to greater efficiency of the economy as a whole.

Ever since the reform of the economic control system in 1968, the role of the labor unions in Hungary has been increasing in importance. Simultaneous with greater independence for the directors of Hungarian businesses, the rights of the unions have also increased—the assumption being that management should base the preparation and adoption of important decisions at least to some extent on the proposals submitted by the workforce.

Issues such as collective bargaining, working conditions, social and cultural entitlements as well as the principles and methods according to which available financial resources are distributed for wage increases, premiums and shared profits can only be decided with the approval of the unions. In addition, the unions have the sole right to decide whether or not the company director's report on adherence to the collective bargaining agreement is approved.

#### Co-Determination

More and more, the company unions are turning into institutions charged with working out a compromise acceptable to all concerned with regard to conflicts of interest. In such instances, the elected representatives of the workforce enjoy the same rights as the company directors.

Understandably, this task of coordination has grown particularly difficult in the face of present aggravated economic conditions. It calls for a great deal of empathy on both sides, since the unions must do an especially good job of giving voice to the individual interests of the separate groups and sectors and that in turn calls for well-functioning social distribution of labor. Increased co-determination by the unions at a time of increased concern by the workforce in higher company profits is expected to lead to a gradual decline of the trend toward egalitarianism. A number of institutional modifications are also designed to facilitate and promote the fulfillment of these tasks.

In the selection and appointment of the directors and other leading functionaries of the companies, the nominating process is now being adhered to and the union locals have a say in the matter. This also applies to performance ratings of the directors. These enhanced co-determination privileges are important because the majority of directors will henceforth be appointed for a set period of time at the conclusion of which their performance will have to be rated.

The directorial council is a newly established institution in Hungarian industry. Its meetings are attended by union representatives in an advisory capacity. In the case of council decisions on annual or medium-range plans, on company statutes and activity reports, union representatives must be given an opportunity prior to the meetings to inform themselves on the issues to be discussed so as to be able to speak up for the union point of view and thus to make it possible for the council to reach a decision in the light of that point of view.

Thus it is the job of the company union not only to represent employee interests but also to take full advantage of its rights to co-determination on issues related to production and the direction of the company.

Another institution which is new in a sense are the supervisory boards which were already in existence in the bigger trusts and businesses but whose activities were limited to providing evaluations on business management to the appropriate ministries.

The new regulations grant more rights to the supervisory boards which will in the future be performing so-called inspection functions on behalf of the ministry. In addition, the issues concerning which the board is called upon to provide an evaluation are carefully circumscribed. These are issues involving business strategy, business policies and plans; major questions of organization as well as management of separate firms within a larger conglomerate.

The membership of the supervisory boards which are appointed by the ministry concerned is composed of finance ministry officials, members of the planning office, representatives of the banks, experts from the scientific institutes and other public agencies and one representative of the particular trade union. Since there is no employee representative on the board, the workforce is not represented by a member of the factory organization but by the trade union delegate who may participate in an advisory capacity without a vote in meetings of factory union. This safeguards the opportunity for an exchange of information and opinion.

#### Energy Economics and Energy Policy

As a consequence of changes in the domestic and foreign picture, Hungary's energy supply situation turned from poor to fair over the past few years. This is due to a large extent to the fact that the rise in world energy prices has made it worthwhile to exploit some of Hungary's domestic deposits. As a result of geological research during the past decade and developments in mining technology, exploitability was reassessed in the light of the worldwide rise in energy prices. Between 1970 and 1981, it thus became twice as worthwhile to mine domestic coal, for example.

Over the long term, Hungary will probably be able to maintain oil production at present levels at best. But there is a possibility to double coal production once more until the end of the century. Hungary also has substantial natural gas and uranium deposits—which should satisfy the needs of Hungary's first nuclear power plant presently under construction.

In assigning energy policy priorities, the deciding factor were the world market prices for specific sources of energy. But the fact that it is of greater advantage to expand on domestic energy sources may constitute an imperative but still not a sufficient reason for deciding on domestic production.

From an economic standpoint, the assignment of priorities should also include a determination of what kind of profits might accrue from the funds allocated to developing energy resources in other fields such as agriculture

or the processing industry. This might make sense, if the capabilities generated with the help of such funds would lead one to expect profits that might make the importation of energy sources more advantageous than engaging in domestic production.

In this light, it would make sense to raise Hungarian coal production to  $1\frac{1}{2}$  to 2 times the present levels—which would not even make full use of existing possibilities.

During the past few years, we have succeeded for the first time in separating the growth rate in industry and agriculture from the increase in energy use and to change the structure of energy consumption at the same time.

Between 1978 and 1982, GNP rose without a simultaneous rise in energy consumption. During the same time period, consumption of oil and of petroleum products declined by more than 2 million tons—which amounted to a 25 percent reduction in imports. At the same time, consumption of natural gas rose by 1.8 billion cubic meters and imports of electric power by 4 billion kW hours.

During the same time period, the share of domestic energy increased and starting in 1978, it again rose by 50 percent. The share of oil and petroleum products in total consumption dropped from 41 percent in 1978 to 35 percent in 1982.

Whereas electric power use formerly used to double within a decade, expectations for the eighties are that it will rise by only 50 percent at most.

In 1982, production of coal in Hungary stood at 26.7 million tons; that of oil at 2 million tons and that of natural gas at 6.5 billion cubic meters. Electric energy consumption as against the previous year rose by 3.7 percent, going up to 33.1 billion kW hours of which 26 percent were imported.

The nuclear power plant at Paks, about 100 kilometers southwest of Budapest, is to supply 15 percent of Hungary's electric energy needs by 1985 and 22 percent of her needs by 1990 with an output then of 11 billion kW hours. This will cover most of the consumption projected to grow up to the end of this century.

#### Agricultural Policy and World Market

Over the past 25 years, the most remarkable results were achieved by Hungarian agriculture. Hectare yields almost doubled during this time period and labor productivity even quadrupled. Annual growth of agricultural production stood at an average of 3 percent over the past two decades. Such a rate of development is without parallel in Hungarian agriculture and is quite unusual even by world standards.

These successes played a major role in the formulation of the reform of the economic control system which, as we mentioned above, substantially broadened the independence of industrial firms by abolishing the obligatory production plans. The idea behind both the reform and Hungarian agricultural policy was to find a common denominator for the interests of the economy, the enterprises and/or cooperatives as well as the workers and/or members of the cooperatives and to put some teeth into economic policy by introducing regulatory mechanisms such as an effective price and tax policy.

This agricultural policy succeeded in obtaining full cooperation of the farmers and to get both the farms and the individual farmers interested in production which in turn made it possible to place major material and intellectual resources in the service of development.

The successes achieved by Hungarian agricultural policy in the interim have been noteworthy even by world standards. Hectare yield of wheat in the twenties stood at 12.9 quintals and rose to only 14.8 quintals by the fifties. Even in 1960, it was still only 16.9 quintals but by 1980 it had risen to 47.9. Between 1976 and 1980, an average of 13 million tons of grain was harvested annually; in the early part of the sixties, the annual average was 7 million tons.

In 1982, the grain harvest amounted to no less than 14.7 million tons which was an increase of 2 million tons from the year before. This corresponds to 1,400 kilograms per capita—a result never before achieved in Hungary.

Per capita meat production amounted to 160 kilograms and per capita consumption to 76 kilograms. 1983 plans call for a 1.3 percent increase in consumption which corresponds to 77 kilograms. Consumption of milk and milk products is expected to amount to 180 kilograms; that of eggs to 18.2 kilograms; that of vegetables to 77.2 kilograms; that of fruit to 79.8 kilograms; that of sugar to 37 kilograms and that of potatoes to 60.5 kilograms per capita.

For several years now, about four-fifths of Hungary's increased food production has been exported.

1983 plans call for further dynamic growth in agricultural production and a 7 percent rise in food exports. The necessary preconditions to achieve these targets exist in all fields.

The integration of the large farms and the individual plots played a major role in all this. This collaborative effort is evidenced for example by the fact that the large farms use 28 percent of their land to produce feed for the animals raised on the privately-owned farms and that they supplied 2 billion forint worth of services to them particularly in the area of transportation.

Fortunately, Hungarian agricultural policy recognized in time that privately-owned plots are not a sign of underdevelopment—as was maintained in former times—since there is a simultaneous concentration of certain products in

large-scale agricultural units and a deconcentration of other sectors of production. While wheat and corn can be profitably produced only on large farms, the production of poultry, eggs, vegetables, fruit or honey is equally efficient on a small farm and the need for investments is smaller.

In addition, the added income obtained by the privately-owned farms has served to enhance and in recent times even to increase the attractiveness of village life.

Not surprisingly, the cooperative sector plays the most important role in agriculture. The correct assessment of the large farms—including the production cooperatives and the privately-owned farms—and the optimum relationship between the two was a decisive factor in the Hungarian agricultural success story—which made it possible for Hungarian farmers to pull even with the workers' standard of living by the late sixties.

These facts are in large measure responsible for the fact that the farmers consider the production cooperatives to be their own property and are correspondingly interested in seeing them succeed.

#### City and Country

The well-being of the agricultural cooperatives also is due to a large extent to the supplemental activities in which they engage: there are 6,560 small plants and workshops that work with or for them. 2,300 of these—or about one-third—are engaged in food processing.

It has also turned out to be very useful that many of the agricultural cooperatives are utilizing their production potential to undertake entrepreneurial activities at their own risk in fields other than the food industry—in construction, services or commerce.

The importance of so-called supplemental activity of the agricultural cooperatives is also growing because the production of initial products for large industrial firms can and should contribute substantially to greater efficiency.

This type of activity also plays a decisive role in improving yields of agricultural cooperatives—about 30 percent of the total—which are unfavorably situated from an agricultural point of view.

These supplemental activities account for about one-third of the profits of the cooperatives whose membership grew by 25,000 in 1982 primarily because of this dynamic growth.

As a result of the decentralization of industry, villagers make up only about one-third of all agricultural labor—with half of all industrial workers presently living in villages. But the influence of the large-scale agricultural enterprises still is a decisive factor in most of the villages because the cooperatives usually are the major economic entity there.

Another reason why their importance is growing is that the cooperatives have by now acquired appreciable intellectual potential. Prior to World War II, there were just 8,000 agricultural specialists who had a university education working on Hungarian farms--now, they number more than 60,000.

Just 2 years after receipt of their diploma, about 80 to 90 percent of these specialists have already attained mid-level positions. Two-thirds of the chairmen of the cooperatives are under 50 years of age and 30 percent are under 40. 60 percent of the chairmen have a university diploma.

An important factor in the formation of agricultural policy during the past 15 years has been the shift in the location of Hungarian industry. In 1938, 53 percent of all industrial production took place in the capital but by now, 73 percent of that same production takes place in the provinces. In other words, one-third of the gainfully employed rural population works in industry and 50 percent of these in the villages themselves. The actual figures for the industrial labor force employed in the villages is 370,000 with another 200,000 employed in ancillary industrial plants connected to the agricultural cooperatives. The villages thus have a 20 percent share of Hungary's industrial production.

80 to 85 percent of the industrial plants located in villages are branches of city enterprises. These industrial plants that have grown up in the villages have lessened the attraction of the cities and made a major contribution to the improvement of material life in the villages themselves.

This means that the labor necessary to increase production further is also readily available. It is also of some importance that working place and living quarters in a Hungarian village are not separated by a Chinese wall which makes a great difference in terms of the quality of life.

Over the long haul, we must also consider the fact that the bio-potential is very important in a time where the value attached to natural resources is growing. In Hungary, the per capita ratio of arable land is 0.66 hectares; that is the best ratio in all of Europe.

Another factor that should be taken into account is that the share of food production in total GNP is smaller, given the existing Hungarian pricing system, than it would be if figured on the basis of world market prices.

Since growth in food production throughout the world cannot keep pace with population growth, it is conceivable that the forecasts which speak of a rise in food prices on the world market in the eighties will turn out to be correct--which would be of some advantage to Hungary.

## Foreign Trade and Fiscal Policy

In 1982, Hungarian economic policy was forced to adjust during the course of the year to the fundamental deterioration of the international financial situation—which had not been quite foreseeable at the time the 1982 plans were originally worked out. In addition to excessively high interest rates, this meant that it was harder for Hungary to take up credit. It also led to the withdrawal of foreign deposits in the Hungarian national bank because of the uncertain international financial situation and for other reasons.

In addition, lowered prices in 1981 and 1982 for Hungarian exports led to a \$ 700 to \$ 800 million shortfall in convertible currencies.

Economic policy efforts in 1982 therefore had to concentrate on maintaining international solvency—whereas when the 1982 plan was originally formulated nothing of the sort had even been taken into consideration.

The fact that steady improvement of the balance of goods and services has been the focus of Hungarian economic policy since 1978 was largely responsible for achieving success in this area. As a result of these efforts, hard currency exports have grown by 44 percent over the past 4 years while imports declined by 20 percent.

From an international point of view, it is worth noting that Hungary was able to maintain solvency without jeopardizing the balanced supply of goods to the domestic market even as imports were reduced, as export prices dropped and the sales picture deteriorated.

As for the 1983 goals, plans are to improve the balance of foreign trade by expanded participation in the international division of labor with production as such assigned a secondary role. The plans call for increasing exports by 6 to 7 percent and thereby to achieve a favorable balance of trade in the neighborhood of \$ 700 to \$ 800 million.

As is known, the forint—the Hungarian currency—was revalued several times over the past few years against the freely convertible currencies as an added measure to combat imported inflation. In 1982, contrary steps were taken, since price trends on the world market had had an unfavorable impact on the profits earned from Hungarian exports.

For this reason, the forint was devalued in several stages during the second half of 1982 by a total of 11 percent. This increased the profitability of exports in convertible currencies and simultaneously raised the cost of imports. These currency policy decisions reflected heightened interest in hard currency exports and a favorable balance of trade in 1982.

The fact that Hungary became a member of IMF and the World Bank in 1982 has been responsible to some extent for the extension of a short-term loan of \$ 500 million by the BIS in a joint venture with Western national banks and the extension of a medium-term loan of \$ 260 million by an international banking consortium headed by an American bank in the latter part of 1982.

After joining IMF, the fund extended medium-term credits to run 5 to 7 years of \$ 600 million in early December of 1982. A small part of this amount was already withdrawn in 1982; but most of it has been reserved for use in 1983. Negotiations with the World Bank on the extension of credits tied to specific projects have meantime reached an advanced stage of development.

Although there is no sure way of predicting developments on the international credit market in 1983, it seems to be a realistic goal to reduce Hungary's hard currency debts in 1983 as well as to improve their structure—which is another way of saying to reduce short-term liabilities.

As far as domestic credit policy is concerned, it is to be restrictive on the one hand and to promote the expansion of exports on the other. The way this is done is that 5 percent of the interest on export credits is refunded and that credits are extended to entrepreneurs requiring a greater amount of capital.

To pay for goods manufactured by suppliers, the large firms may also take up credits the equivalent of which will not be repaid to them until later by their foreign customers. Thus the greater need for capital on the part of major entrepreneurs may in large part be financed through preferred credits—both as to running time and interest rate—in the case of export ventures.

It is expected that the relatively high interest rates on credits extended to the business firms by the Hungarian national bank will make for a better selection process and contribute to improving the profitability of investments.

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ACADEMICIANS PONDER WORLD, DOMESTIC ECONOMY, INADEQUATE TELEPHONE NETWORK

Budapest HETI VILAGGAZDASAG in Hungarian 14 May 83 pp 4-6

[Text] At the Karl Marx commemorative session of the Hungarian Academy of Sciences, and subsequently at the department meetings that preceded the annual general assembly, several lectures were presented offering a historical review of the Hungarian economic mechanism and discussing the timely problems of Marxist economic science. In the following we present excerpts from the lectures by Academicians Jozsef Bognar and Kalman Szabo at the Marx commemorative session, an article by Academician Andras Brody based on his lecture at the meeting of the Department of Economic and Law Sciences, and finally a summary of Academician Tibor Vamos's contribution to the debate at the meeting of the Department of Technical Sciences.

Jozsef Bognar: Marxist Concept of the World Economy

"At present the total debt in international trade is 300 billion dollars. In view of the high interest rates, which in their turn can be traced to the credit restrictions and budgetary deficits, the debtor countries should be exporting annually 120 to 130 billion dollars more than they are importing. This obviously is hardly possible, especially if we take into consideration the fact that in a recession the developed countries are unwilling to import more. But if the debtor countries--primarily the developing countries--are unable to import more, then the economies of the developed capitalist countries are unable to stage a recovery, because 35 to 40 percent of their export flows to the Third World.

"Not only do the debtor countries depend on their creditors (nations and banks), but it is also in the interest of the creditors to place the debtor countries in a position enabling them to repay their debts . . . . National economies cannot be liquidated in the same way as bankrupt enterprises.

"An economic recovery (upsurge) requires a new, coordinated (international) economic policy that has numerous domestic and external components. The developed capitalist countries must abandon their restrictive and anti-inflationary domestic policies, and their external economic policies that strive to restrict credit; the developing countries need a more realistic and deliberate economic policy and investment decisions that take their possibilities into account and ensure more efficient utilization of resources; and the socialist countries must

strengthen and develop their world-economic capabilities, on the one hand in terms of export, and on the other be extending their policy to economic inter-relations they neglected to exploit in the past.

"A compromise will have to be reached sooner or later. It is unimaginable that the developed capitalist countries, abandoning their own system of interests and structures, will adjust entirely to the interest relations of the developing countries. On the other hand it is likewise impossible to exclude from action those interests of the developing countries that fall within the range of common interests. If it is true that there can be no economic recovery without an expansion of export, and if these export-oriented countries are shipping 35 to 40 percent of their export to developing countries, then obviously it is in their basic interest to restore the purchasing power of the Third World. Probably this restoration will not occur at the time and to the extent that would be expedient from the viewpoint of the world economy--for the world economy does not have real interest relations, interest and power structures--but action can be expected at the latest when the evolving situation becomes dangerous for the rich countries and their businesses.

"The economic crisis of the 1970's has dramatically demonstrated that development of the world-economic processes strongly affects the economies of the socialist countries as well. In the interest of ensuring the development of our own economic policy, therefore, it will be expedient and unavoidable to attempt to foresee the phenomena of the world economy, which would hardly be feasible without a world-economic concept.

"Upon careful consideration of these facts and interrelations, therefore, I believe that in the future it will be in the fundamental interest of living Marxism to have a comprehensive world-economic concept of its own."

Kalman Szabo: On Domestic Economic Competition

"When our economic policy emphasizes the activation of market relations, it is not advocating some phenomenon foreign to the system. Competition is--or more accurately it truly can become--the flywheel of our economy. It serves to encourage producers to flexibly follow the movement of effective demand, and to this end it compels them to efficiently utilize their production potential, to modernize, to reduce unit costs, and to expediently change the structure of supply.

"Why should it be utopistic under the conditions of socialist commodity production to develop competition among enterprises on the domestic market when domestic training is desirable already from the viewpoint of prospering on foreign markets? And why should domestic competition mean a deterioration of the system's specific nature when it helps to unite enterprise collectives and encourages them to develop their individual abilities, linked to the innovator and brigade movements and in conformity with the plan? When it encourages, among other things, that as many persons as possible utilize the experience they gained in economic practice and become influential factors in democratic debate on various alternative concepts, so that they may compare their objectives and imagined needs with the professionally ordered objectives and ways. Neither efficiency, nor the collective, nor entrepreneurship can grow truly deep roots without formulating the objectives and ways in the plan and without the workers' identification with these objectives and ways.

"One often hears that the expansion of commodity and money forms--even closely in conjunction with conformity to the plan--necessarily causes very tense inequalities. Those who contend this overlook the following: (1) Very often the inequalities in question would exist even without commodity mechanisms, and thus the mechanisms merely express these inequalities more clearly. (2) An abundance of experience confirms that when the factors removed from the influence of the money form and of the market become more widespread than necessary for considerations of social policy, the various employed modes of direct distribution will sooner or later cause and maintain wide inequalities in the economy and even in the nonmaterial sphere. Moreover, these inequalities assume forms more concealed and less controllable than the inequalities that would arise openly, on the basis of economic principles. The various outgrowths of excessive direct distribution, which at the time of their introduction were intended to maintain equilibrium, were conceived in the spirit of socialist equality and fairness. But after a time their establishment generates and maintains tendencies that erode the socialist values of our system; it penalizes the more talented and enterprising, the creative and producing collectives, and it disproportionately rewards the passive and the free-loaders. In my opinion, the differences created and brought to the surface specifically by commodity and money relations generally are closer to the basic requirements of socialism and can be adjusted more easily to them, through the normal functioning of the planned economy.

"A significant problem is that the scale of allocating (domestic) economic resources, of redistributing incomes within the economy through the state budget, is unquestionably overcentralized. I do not see the main problem solely in that the decision-making organs and professional apparatuses are overburdened and have neglected to some extent to improve the performance of their basic tasks, although these circumstances too are by no means negligible. A much greater drawback is that redistribution limits far more than feasible and necessary the enterprises' room for independent action, which in principle is fairly broad. Mandatory individual interventions likewise undermine the willingness to produce and hold back efforts to raise efficiency and increase competitiveness, on export markets as well as the domestic market.

"From this follows the essential direction of the necessary changes that will result in shifting the point of main effort in the redistribution of resources from the central organs at present, to the sphere of regulated market relations. Progress in this direction should be accompanied by a relative increase of the funds over which the enterprises have control, and by the emergence of organizational and incentive forms that will induce the enterprises to abandon their autarchic approach to development, so that in the allocation of their funds the enterprises will not forget even by accident to consider whether or not investing their funds outside the enterprise might offer a faster return on their investments. (The already existing forms of associations, subsidiaries and small companies are significant in this respect, but they are far from adequate.)"

Andras Brody: On the Criticism of Economic Mechanisms

The first wave of the Hungarian economic mechanism's criticism that unfolded in 1957--I include here primarily the writings of Gyorgy Peter, Sandor Balazsy and Janos Kornai--started out from the facts of the economic incentive's misapplication, tying into a bouquet as it were the harmful consequences: neglect of

society's existing needs. However, the changes introduced in the premium system and the introduction of the profit incentive did not produce the expected results, and the system of institutions that had been left intact restored the normative--official, "external"--regulation considered outdated.

Therefore the second wave of criticism, in the mid-1960's, penetrated deeper and wider, and in the 1968 reforms it produced also radical organizational changes. Despite all their beneficial effects, these organizational changes again proved inadequate because they did not end shortages in the economy and at best only alleviated them in some instances. Not only the retreating tendencies in the early 1970's, and the world economy's recession that began in the mid-1970's are responsible for the fact that the socialism existing in our country, in spite of all good intentions, has been unable to supply society's justifiable, mature and effective demand. In this way there has unfolded in recent years the third wave of the mechanism's criticism. With the participation of also sociologists, lawyers, historians, political scientists, and even of literature and writers, this wave is now demanding sounder social (thus not merely economic) solutions.

Why is the present Hungarian economic system reluctant to supply many important needs? Why does it necessarily reproduce the phenomena of shortages? Why is it unable to solve, for example, the problems of housing, classrooms and telephones, while it is investing in unnecessary and sometimes even simply mistaken undertakings several times the amounts that would be needed to solve these problems? The explanations offered to date are inadequate. The reason cannot be an unsuitable incentive system, it cannot be simply the paucity of resources, the "softness" or rigidity of the state budget.

The latest economic and sociological investigations indicate fairly clearly that it is in the interest of the enterprises, and even of the authorities, to maintain some degree of shortage on the market for their goods and services. For under the system of regulation that has been in force since 1950--in spite of all its seeming modifications and patching--only those enterprises can expect advantages (wage preferences, price subsidies, investment credit or preferential treatment in general) that are able to prove their need for central assistance in order to supply the accumulated social demand. But the enterprises that "crazily" supply the demand entirely can expect only to operate under stricter conditions in the coming years, without any state benefits.

The holding back of performance that has evolved in this manner is similar to what has already been described in detail in the professional literature in the case of workers paid on the basis of performance norms, and their response is surprisingly similar in both capitalist and socialist plants. If fulfillment of the norm results in its tightening, then it is in the vital interest of the workers--and of their trade unions--to hold back performance.

Thus the fault lies in the external, normative nature of regulation itself. Although the introduction of the profit incentive creates the illusion that through it we have been able to adopt the capitalist market's spirit of competition while avoiding the unpleasant consequences of capitalist ownership, an analysis of practice seems rather to indicate that we have introduced certain unpleasant consequences--for example, a greater propensity to fraud and corruption, a deepening of the contradiction between enterprise interests and the interests of the national economy--without really adopting the spirit of

competition. The functioning will not be identical of a target stemming from and determined by objective conditions (for example, profit maximization or a sports game), and of an instruction or expectation that is dictated from the outside and is only constantly modified with reference to objective conditions, but in the final outcome nevertheless expresses administrative compulsion (for example, the prescribed profit level or work norm).

To set aside the internal targets stemming organically from the processes and representing their self-regulation, and to replace them with external requirements has been and will remain a mistake, no matter how hard we try to conceal this by contending that we wished to replace spontaneity with conformity to the plan. The result has been not closer conformity to the plan, but the development of harmful forced trajectories.

It is interesting, however, that in the literature criticizing the economic mechanism the question of "why" has hardly arisen, i.e., why did we choose specifically the given instruments of management at the beginning of the 1950's. Reference to copying the experience of the Soviet Union sounds rather superficial. Why did we choose specifically certain characteristics to copy when we borrowed other things, for example, from the Horthy system's war economy or public administration? The answer raises a new circle of questions.

When one examines the scope of the debate on the economic mechanism, and the cyclically varying intensity of the writings discussing these questions, it is striking that every serious sudden halt of economic growth triggers a wave of concerned, analyzing, critical and proposing literature. So far this is only natural.

But what provides food for thought is that the criticism is not aimed directly at economic policy. We are ceaselessly seeking the shackles of our economic development in the economy's rules of the game, and these rules are what we want to renew and modernize.

In one respect, however, the criticism and modification of the mechanism that crystallized after 1949 are simultaneously a criticism of economic policy as well, for a given mechanism is merely the tool, representative and manifestation of a given period's policy and economic policy. Ivan T. Berend splendidly demonstrated how the voluntaristic industrialization policy of the early 1950's tied in with the despotic methods of management on the one hand, and with a faulty political perspective on the other. I would go one small step further (incidentally Berend anticipated this in his reasoning) and fault not only the rate and direction of industrialization, but also the key role assigned to industry. Despite the excessive industrialization, industry has not supported the majority of Hungary's workers and will be even less able to support them in the future.

With the completion of postwar reconstruction, in 1949-1952, the question that was placed on the agenda was not industrialization, and especially not the mode of industrialization that pursued ever more tons of coal and steel, but the transition from extensive growth to intensive growth. However, this would have required the development of other industries. Austria and Japan, countries which then were at the same level as Hungary, embarked on such an intensive path of growth more purposefully and with better planning than we did. In our country, political mistakes barred this path at that time. In the year of change,

then, we went astray in this respect. The conviction that we all could be working, if not more, at least more intensively and at a higher level, but for the economic mechanism inherited from the 1950's, will in the end force a change also in economic policy. However, this change will not bring with it simply new objectives of economic policy--i.e., not a change of the external, normative regulations--but an economic policy that will serve to develop the specific natural and social possibilities of our country.

#### Tibor Vamos: Inadequate Telephone Network

The reasons for the Hungarian telephone network's backwardness are not primarily economic but social ones. Between the two world wars the Hungarian telephone network's density still exceeded the level commensurate with the country's economic development. After the war, however, development and expansion were neglected. The rigid, command-directed system, which did not want continuous feedback even from production, did not consider at all as important the development of social contact and of the flow of information. To some extent it even regarded as dangerous the large-scale flow of uncontrollable information.

The situation today is entirely different. The present political and economic conditions not only need but directly demand the mutual exchange of information and continuous feedback from all areas of life. For this very reason the present underdeveloped state of the telephone network and of the entire information infrastructure is becoming an increasingly serious obstacle to the normal transaction of affairs, ranging from production through public life to the sphere of private life. The political leadership recognized years ago that the rules for cooperation and exchange of information among the state, the economic and social organizations, and individuals had to be laid down. However, an information law intended to serve this purpose--among other things, it should determine the ways and possibilities for developing the telephone network--is still lacking, and the public administration organs still owe us the drafting of such a law. Yet the lack of information, and the underdeveloped telephone network as one of the causes of this lack, already are having exceptionally serious economic consequences.

The fact that in Hungary it is not possible to settle by phone matters that for this reason must follow a fixed trajectory of paperwork not only slows down and hampers administration but is also generating unnecessary bureaucracy. In addition, it compels the enterprises to spend resources on substituting the missing information network; and the population, to spend their spare time for this purpose.

Everything considered, the value of the additional work performed because the telephone network is inadequate can be estimated conservatively at 10 percent of national income. Thus the development of the telephone network would put to productive use this lost proportion of national income, and therefore investment in the telephone network's development cannot be regarded as nonproductive by any means. To the contrary, it would be one of the most efficient investments with the shortest payoff period.

ECONOMIC ADVISORY COUNCIL REVIEWS FIRST YEAR'S TRACK RECORD

Warsaw RZECZPOSPOLITA in Polish 17 May 83 pp 1, 2

[Article: "Economic Advisory Committee Sums Up the Year's Work; Preparation of Recommendations for Systems Changes Related to the Reform, New Forecast of Warning"]

[Text] (From our own sources) (C). A year has passed since the creation of the Economic Advisory Council. The previous work of the council was summarized at a meeting held the 16th of this month, and the major projects were assessed. The council also presented its judgments of the work.

Council chairman, Prof Czeslaw Bobrowski, extended Premier Wojciech Jaruzelski's thanks to the members of the council, for their rich contributions in terms of their initiative and useful criticism expressed in the reports on the state of the economy.

Prof Bobrowski pointed out that in the course of their activity up to the present time the council's opinions and expertise have become well known for their deliberate, careful style. This is the result of the process used during the past months, expressed in a large-scale consensus as well as an attempt to link theoretical assumptions to practice.

There was also a summary of the personnel changes which had taken place on the council since its creation.

The entire past period of operation of this social body of advisers, which is what the Economic Advisory Council is, has featured many lively discussions concerning basic, current economic problems of the country: market balance and inflation, the system of prices and taxation, rationing, the situation in the housing program and construction, the balance-of-payments situation and mechanisms of the operation of foreign trade, the issues of procurement and prices of farm products, and problems of employment, income, and consumption.

At the same time the government's high level of activity made it necessary to assume positions rapidly. Unfortunately, given the fact that the information system is not developed to the optimum, it was not possible to present the council's position far enough ahead of time in all cases.

The council's most important work during the first 6 months of its existence was the warning forecast for major components of the economic situation in 1982, along with proposals for the most urgent action. Later the council focused on preparation of two documents: expert opinion on variant concepts of the National Socioeconomic Plan for 1985 and initial targets for 1986-1990, and an assessment of the results of implementation of the economic reform.

In the document concerning the plan, the council, for example, put forth a proposal for a step-by-step plan. It called for an in-depth analysis of the labor market situation and analyses of decapitalization of fixed assets and the financial balance of the country. On the other hand, in the document devoted to the economic reform, against the backdrop of the components of an assessment of the economy's operation under the new conditions, it presented proposals concerning the price system, the tax system, material supply, and antitrust policy.

This year the council's work focused mainly on the multiyear plan and the reform. An expert opinion prepared on the draft three-year plan and remarks on the program to combat inflation, along with remarks on the principles for orchestrating the plan, were used by the government in broad measure.

At the same time two questionnaires were conducted among the enterprises on the subject of the reform. As the result of them the council wrote a comprehensive paper entitled "The Functioning of the Economy at the Current Stage," in which, for example, initial proposals were presented concerning what is called "hard financing" as a condition for building up pressure for effectiveness.

In the immediate future council members intend to concentrate on a discussion on systems changes vis-a-vis past experience related to the reform and the specific economic situation. The Office of the Plenipotentiary on the Economic Reform is to draw up an exact diagram of the projected changes, and council representatives will join the discussion on this document. Plans for the next few months also include the preparation of a new forecast with the hope of better results, according to Prof Bobrowski.

During the meeting there was a discussion on how far one could count on self-reinforcement. Are there any assurances of further growth tendencies as a result, and, concretely, as a result of production growth? The thing is similar for export growth rates. Questions related to employment, the problem of decapitalization, and sold-production settlements were also reviewed.

It was decided that questionnaires would continue to be a source of information for the council's work, alongside cooperation with the Planning Commission [of the Council of Ministers] and the Main Statistical Office [GUS]. Another project is to create forms of contacts between scientific-research institutes. In this case it would be a question of upgrading the transmission of information concerning research in progress.

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## ALTERNATIVE REPORT ON ECONOMY IN 1982 ISSUED BY ECONOMIC ADVISORY COUNCIL

Warsaw ZYCIE GOSPODARCZE in Polish Nos 20, 21; 15, 22 May 83

[15 May 83, pp 7-10]

[Excerpts] /Resolution No 65 of 1 April 1982 establishing the Economic Advisory Council provides that the Council should prepare periodic assessments of the state of the economy and the development of the economic situation. There exists a number of studies and reports prepared by the appropriate administrative agencies. Much information can be found in GUS [Main Statistical Office] reports and discrete publications. But this in no way detracts from the pertinence of our study. To be sure, we are not contributing many new facts or figures to the reports and studies of other institutions, but we hope that the comments and analyses contained in the present study will advance somewhat the knowledge about last year's economic reality. The bulk of the text is devoted to an analysis of 1982. We tried, however, to relate the economic processes in 1982 to their earlier origins and to consider the extent to which the results of that year can provide the basis for further processes of emergence from the crisis and, primarily, of structural changes./ [printed in boldface]

/This first part of a series of two articles deals with the following topics: Overall Assessment of 1982; The Ongoing Application of the Economic Reform; Prices and Finance; Production Factors (Investments, Labor and Employment Resources). Part 2, which will be published in issue No 21, 1983, of ZYCIE GOSPODARCZE, contains the chapters: "Material Production (Socialized Industry, Construction, Agriculture); Foreign Trade; Material Conditions of the Population (Incomes, Consumption, Housing Situation); and Summary./ [printed in boldface]

## Overall Assessment of 1982

Indebtedness to capitalist countries reached such a level that its full servicing would cost more already in 1980 than the total revenues from free-foreign-exchange exports. The implementation within a few years of the investment program from the 1970s would require abandoning any new investment outlays. These two best-known and particularly severe consequence of the voluntarist policy of the 1970s can be complemented with such nearly as severe consequences as the increase in energy-intensiveness, in imports-intensiveness, etc. The principal attention should be drawn, however, to a broader phenomenon with--unfortunately lasting--consequences, namely, the built-in disproportions in the economy's structure owing to the unbalanced investment program and the unbalanced and sometimes premature technological changes in industry and even in agriculture

which reduce the effectiveness of management. In 1975, despite some increase in employment, the growth of non-agricultural generated income was equal to the growth in fixed assets, while during the subsequent 3 years the growth rate of fixed assets was twice as high--uselessly, it could be said--as the growth rate of national income. The decline in effectiveness became a chronic diseases requiring prolonged and complex treatment.

It appears proper to draw attention to yet another factor which, though psychosocial rather than economic in nature, markedly influenced the economic situation in the 1980s. The sloganeering formula promising the building of a second Poland was replaced with the slogan of a second Japan. The creators of the myth of Poland's tremendous and easy development prospects are gone and the propaganda of success left in its wake a deep feeling of disappointment, but the myth itself did not become dissipated at once. Irrespective of political and economic factors, which lie outside the scope of this article, it can be stated that the illusion that it would be enough to replace the team for Poland to begin blooming played a huge role in the demands, pressures and, as a consequence, decisions taken after August 1980.

During the years 1980-1981 the consequences of earlier mistakes became compounded by new unfavorable factors among which a particularly significant factor was the ensemble of decisions leading to the immobilization of a part of the able-bodied population and the shortening of work time. Some of these decisions may have been fundamentally right, but they were introduced before the economic conditions for them would be right. I refer, of course, to the lowering of retirement age, paid educational leaves and, above all, the universal--rather than selective and gradual--abolition of work on Saturdays. In 1981 the number of hours worked per employee of industrial and development group in socialized industry declined 10 percent compared with 1975.

Another result of the lack of realism and the weakened position of the government due not so much to the strikes themselves as to their constant threat, was the growing imbalance of goods and money. In 1981 supplies of consumer goods and services offset only 90 percent of the consumer cash resources. Despite the decline in trade inventories, consumer cash resources in 1981 increased nearly one-fourth, generating a money surplus estimated at the National Bank of Poland [NBP] at 320 billion zlotys or nearly 16 percent of the disposable funds. The creeping inflation of the earlier years became galloping inflation.

In 1981, and especially at the threshold of 1982, new alarming factors had appeared. The disintegration of the directive-type system, already apparent in 1980 when nearly one-half of enterprises failed to confirm their plans, grew on a scale warranting the term 'chaos.' The commercial bonds between town and country became disrupted, properly speaking, which led to resorting to linked transactions. The then still limited worsening of market supply was accompanied by distrust of cash (hoarding, growing queues in front of shops).

It is characteristic that all the factors mentioned above came into play in a situation when the consumption of material goods paid for out of consumer monetary incomes stagnated but had not yet declined. Thus while distributed national income dropped 12 percent compared with 1980, total consumption remained basically at the same level. This result was achieved by further reducing investment outlays, maintaining a negative balance of foreign trade and increasing indebtedness, with consequences that made themselves felt the following year when consumer living standards could no longer be kept divorced from the declining level of national income.

Toward the end of 1981 the Polish economy encountered new difficulties in regard to its external equilibrium. Previously granted Western credit was utilized almost completely. Even earlier, Western banks withdrew their deposits from our country. The chances for a rapid admission to the International Monetary Fund were forfeited, undoubtedly owing to the attitude of the United States. Lastly, non-binding and indefinite prospects for obtaining loans to procure feeds from the United States were terminated by a categorical refusal. A further deterioration of the situation in 1982 took place despite the relief obtained as regards bank loan servicing in that year, and despite the substantial financial assistance from the Soviet Union.

In the psychosocial plane, mention should be made of the wave of apprehensions and perhaps even fear of the immediate future which surged in the fall of 1981. Besides, objectively speaking, the prospects for the winter of 1981/1982 were not promising--there was apprehension as to the continuity of supplies, consumer heating and transport. Unjustified as it was, fear of mass unemployment, especially after the introduction of maternity leaves and lowering of retirement age, not only spread through society but also was reflected in comments by publicists and even in the state apparatus (and was combined with underestimation of the problems involved in so-called employment relocations).

Finally, toward the end of 1981 it became clear that the period of negotiations between the authorities and Solidarity had reached its end, that a sharp conflict was inevitable in one form or another. Such an appraisal of the situation resulted in the decision to proclaim martial law on 13 December as a "lesser evil," according to the contemporary formulation.

A detailed assessment of the influence of martial law on discrete economic processes would require documented research, but it is not anyhow indispensable to the reflections presented here. It appears that four planes of influence of martial law can be distinguished:

--prevention of an escalation of conflicts and introduction of law and order into daily life. There is no way, of course, of quantifying the influence of these factors on the economic processes, but one can state that it has been considerable;

--the militarization of certain sectors of the economy has undoubtedly resulted in tightening work discipline at the militarized plants and indirectly also in improving their efficiency. But as regards the most important militarized sector, namely, the coal industry, the effect of the martial law cannot be isolated from the effect of Resolution 199 which markedly raised the earnings of miners;

--the controls exercised by the troops as well as the presence of military commissioners have, insofar as can be judged (on the basis of contemporary opinions rather than of studies), produced varying effects depending on domain and area. Military actions appear to be particularly effective as regards simple problems (law and order, elementary economizing) especially in rural areas, where numerous instances of their positive influence were recorded;

--the increased freedom of selection of those authorities that deal with fundamental problems of economic policy, linked with preventing an escalation of

conflicts. This significant and even fundamental issue requires some discussion. It was not the intent of the martial law to impose always and everywhere the selection and decisions of authorities regardless of possible resistance. On the contrary, during the first stage, the authorities attempted to develop to some extent a system for public consultations, and they undoubtedly drew back from decisions that might meet with sharp resistance preventing the attainment of the goal of assuring public tranquillity. Hence, it cannot be assumed that the martial law assured complete freedom of action to the central authorities, as has been assumed by those who regret that the opportunities for imposing decisions have not been exploited as much as they could, as well as by those who, though opposed to the introduction of martial law, stress that it has not been successfully exploited in order to, e.g. impose more drastic price increases.

In addition to the above aspects, martial law is also associated with such issues as: self-government, trade unions, and the procedure for appointing factory managers (discussed in the section on the reform).

Along with the introduction of martial law, other new elements in 1982 policies were the application of the economic reform and a broad price maneuver. Both these aspects will be discussed more extensively in appropriate sections of this study; for now we will confine ourselves to several basic findings.

The decision to introduce the economic reform as early as on 1 January 1982 had been made much earlier than the decision to introduce martial law. During the period from the first studies by the Commission for the Economic Reform in the fall of 1980 until the drafting of "Directions of the Reform" in June 1981, two associated problems had been considered:

--how far can the postulated reforms be implemented under the conditions of an unbalanced economy?;

--what is the extent to which interim regulations governing the first stage of application of the reform are needed?

The latter problem, although clearly stated in "Directions of the Reform," was not elaborated as thoroughly and in such detail as the vision of the ultimate system, so that it became urgent to repair the omissions in this respect. This urgency necessarily led to imperfect solutions, such as those concerning the tax system, on which the Commission for the Reform was unable to evolve a sufficiently mature concept. It can be stated, however, that the number of correct solutions contained in the interim system approved by the authorities was much greater than the number of faulty solutions.

The dispute among theoreticians concerning the first of these two questions has never been resolved owing to, among other things, differing appreciations of the possibility for exploiting the potential latent in the economy by the very fact of introduction of the reform. Sceptics claimed that not all of that so-called potential (which is sometimes simply interpreted as weaknesses of the economy) is always suitable in a given situation, that it cannot always be exploited within a short period of time and that most often it requires certain attendant measures that are not always feasible (e.g. additional investments or additional imports). On the whole, the prevailing view was that complete balancing of the economy is neither indispensable to the introduction of the reform nor feasible without its introduction, but the excessively great tensions in the economy and its excessively large disequilibrium would present tremendous obstacles to the application of the reform.

The introduction of the reform on 1 January 1982 occurred, however, precisely in the presence of an acute disequilibrium and hence also under extremely unfavorable conditions. This was dictated by a complex whole of motives, whose order of priority could be divulged by the authorities only to authoritative persons:

--an undoubtedly important motive was the fact of the already total disintegration of the directive-type system; it can be said that the alternative to the reform was chaos;

--since 1980 the authorities regularly declared their desire to bring about a reform, and hence failure to proceed would cause a large part of society to feel frustrated and undermine the prestige of the authorities, particularly considering that it was insinuated in certain circles that the declarations on the reform were a smokescreen. The introduction of martial law without prior decision to introduce the reform would have produced a particularly adverse effect politically--it is easy to foresee the critical opinion that martial law was introduced "instead" of the reform;

--it may be that the haste in introducing the reform was also somewhat due to the underestimation of the attendant difficulties. This hypothesis is prompted by mistakes in forecasts and simulation models, which will be discussed below. Another sign of the underestimation of difficulties was the surprise caused by the scale of price movements, considering that it should have been anticipated in advance that, just as it is, the recognition of profits as the principal incentive for enterprises would induce them--given restrictions on material supplies and difficulties in restructuring production--to resort, logically, to price increases. (Whence also, in many cases the enterprise in practice did not advance as far as might have been assumed in the direction of price increases to the equilibrium level, but contented themselves with cost price plus doubled profits.)

The reform, on the one hand, and the "price revolution," on the other, were the twin pillars of the program of action of the authorities in 1982. This program, linked to the "Program for Surmounting the Crisis" in the second half of 1981 and to the Central Annual Plan [CPR] for 1982, formulated as follows in March 1982 the principal directions of action:

A. Halting the decline of production and initiating its gradual growth.

B. Restoring the market equilibrium.

C. Budget cuts and restoration of fiscal health.

D. Ordering of situation on the investment front and within the R&D base.

E. Relocations of employment.

F. Restoration of the payments equilibrium and export-oriented restructuring of the economy.

The evolution of the principal variables during 1982 is illustrated in Table 1.

It has become a widespread practice to base growth indicators on the corresponding reference period in 1981. In principle, this serves to make some allowance for the seasonal nature of factors, but the year 1981 was, on the one hand, a year of declining production and on the other, a year of growing inflation. Hence, although we are aware that, so far as agriculture is concerned, disregard of seasonality distorts the picture, we adopted the fourth quarter of 1981 as the base period for comparison of all indicators in the table.

It is readily seen in this table that during the first quarter only coal extraction had increased markedly and that since then it has remained at a more or less constant level. It can thus be said that the obstacle of coal supplies, and hence also of energy supplies, had been surmounted already in the first quarter. A consequence of the rise in coal extraction was the rise in exports already in the second quarter--a rise that has continued since then. In its turn, the rise in exports in the second quarter is associated with the concurrent and subsequently growing rise in imports, including of course imports of raw materials. The final link in this cause-and-effect chain is the reversal of the decline in industrial production during the last quarter. We believe that this table reflects the basic aspect of 1982, which, however, cannot be extrapolated to 1983 (see the section on Foreign Trade in the second part of this article).

Despite the reservations ensuing from the use of the indicator of sold output instead of net output, the curve of industrial output can be regarded--with allowance for the immesurably difficult attendant conditions--as a curve of success. The curve of foreign trade can be defined as a reflection of the application, already in the first quarter, of the hard decision imposed by reality, as well as a reflection of the consistent pursuit during the succeeding quarters of a policy intended to, first, achieve an at least limited positive balance and, second, reorient our trade turnover in the direction of an increased share of socialist countries.

In other subsectors of material production the decline in net output turned out to be greater than in industry. But while in agriculture this is due to weather conditions that had been unfavorable for the potato harvest, and primarily to the reduced feed imports, the changes that occurred in both housing and industrial construction cannot account for its decline. As for the decline in the output of building materials, this is due to the chronic malaise of that subsector.

As for the equilibrium between goods and money in circulation, it is difficult to speak of accomplishments in this field. As known, according to an NBP estimate, the inflationary overhang toward the end of 1982 was nearly 500 billion zlotys, accounting for a surplus of about 15 percent of consumer disposable funds. Thus the progress here has been nugatory and is within the margin of error (the overhang is often divided by 3, that is, roughly according to the increase in retail prices, but this is a faulty technique and at any rate it is less accurate than computing the ratio of the overhang to the disposable funds).

Recently, as mentioned in the press as well as in certain official declarations, the accelerating inflation toward the end of 1982 is linked to the high wages paid in the socialized sector during the fourth quarter. In this connection, it should be emphasized that this simplified interpretation disregards the entire evolution of both wages and price movements throughout the year. Income from wages had during the year increased at a definitely slower rate than social services and benefits. The latter, however, increased chiefly owing to compensation payments, which were a factor in the incomes of both worker families

and the families of annuitants and pensioners. Even so, the monetary income of all of these groups did not grow at a faster rate than the cost of living.

Table 1. Growth Indicators (fourth quarter of 1980 = 100)

Subject	First Quarter 1982	Second Quarter 1982	Third Quarter 1982	Fourth Quarter 1982
Industrial output				
(output sold)	99	98	95	108
Black coal extraction	115	115	116	114
Imports, total (current prices):	59	75	83	98
a) from area I (socialist countries)	62	82	83	100
b) from area II (capitalist countries)	56	67	82	95
Exports, total (current prices)	84	102	103	132
a) to area I	87	109	109	143
b) to area II	82	96	98	123
Retail prices*	136	163	171	176
Wages	128	123	128	153
--without compensation payments**	114	120	115	141
Social Services	182	208	219	251
Income from sales of agricultural produce	85	89	125	148
Growth of consumer cash resources	164	43	71	133

\*Price index compared with the level in December 1981.

\*\*Estimated

The fact that the growth rate of incomes from sales of agricultural produce to the state was somewhat lower than the growth rate of wages plus compensation payments should be considered in the context of the fact that the indicator of incomes from such sales is lower than the indicator of total incomes in agriculture, since it comprises neither farm rents nor incomes from direct sales nor in-kind consumption. But the main thing is not to compare the incomes of discrete population groups but the composite growth rate of these incomes vis a vis the price movements.

Beginning in the first quarter, the increases in retail prices slowed down, amounting to 1 percent per month, while the incomes grew at a varying rate--the slowest rate being recorded for incomes from wages--until the third quarter inclusively. It is thus unjustified to view these incomes as the principal or

sole cause of the growing inflation. It would be much more justified to observe that the movement of retail prices, halted or slowed down to a fairly broad extent, did not catch up with the growth rate of incomes until the fourth quarter.

In its "Warning Forecast" of June 1982 the Economic Advisory Council drew attention to the growing exacerbation of inflationary symptoms and proposed, among other things, selective increases in prices of non-staple goods. The Council's proposals were intended to accomplish a marked reduction of the inflationary overhang by year end--under such conditions the 1983 tasks would be immeasurably easier to accomplish.

#### The Proces of Application of the Reform

A new element in economic policies of 1982 was the practical application of mechanisms of the reform.\* In the sphere of legislation and administration this process began even earlier, already in the second half of 1981.

The organizational changes at the central level were chiefly expressed in restricting the number of branch and subsector ministries.

In 1982 the role of branch and subsector ministries in the administrative system and the principles of their functioning under the reform had not yet been crystallized. These matters appear more important than pondering whether the decision on the number of ministries was expedient. Likewise, the tasks and competences of the supreme organs of economic administration having a functional nature, as well as of the collegial bodies of the Council of Ministers (commissions, committees) had not yet been crystallized. The scope of responsibility of discrete organs, as well as of the persons directing them, for the adopted decisions and their consequences had not been defined with adequate clarity either. The organizational structure of the central authorities directing the economy and the issue of strengthening it thus remain a highly important factor in not only the application of the economic reform but also the effectiveness of economic policies.

Another reflection of the changes in the administrative system, initiated already in 1981, was the decision to disband [industrial] associations and form voluntary syndicates, which began to be implemented in mid-1981. The principal motive for the formation of voluntary syndicates was difficulties in procuring material supplies. In a definite majority of cases the voluntary syndicates were patterned on associations as horizontal organizations. The exceptions included the formation of syndicates on the principle of vertical integration of production, as happened with regard to the syndicate of textile enterprises and the producer of artificial fibers. The form in which voluntary syndicates are organized still is inadequate to their functions specified in the decree on enterprises. It is thus feared that in the future this may contribute to monopoly price policies and restrictions of competition. To be sure, given the current seller's market, nearly every producer is a quasi monopolist, so that these

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\*The question of applying the reform and appraising its effectiveness was the topic of an extensive study by the Council, titled "Assessments of the Operation of the Economy at Its Present Stage" and published in ZYCIE GOSPODARCZE (No 14, 1983). We thus confine ourselves to repeating the principal conclusions and complementing them with discussion of issues omitted in that text and pertaining in particular to institutional aspects.

apprehensions are rather long-range. Despite the voluntary nature of the syndicates, the attendant dangers to the autonomy of enterprises should not be overlooked.

Among legislative arrears the absence of a decree on the bankruptcy of enterprises is mentioned first. The issue of bankruptcy and rescue proceedings is neither simple nor easy to follow through in practice, especially with regard to enterprises which are decisive to employment in a given region which moreover has a manpower surplus. However, the absence of legal provisions in this field has been a factor in "softening" the principle that banks should grant preferential loans to and promote the self-financing of healthy enterprises.

The decree introducing the martial law suspended the operation of enterprise self-government, though as the political situation stabilized, already in mid-1982 the ministers were authorized to waive this suspension. The process of the restoration or appointment of these self-governments developed in practice only during the fourth quarter, and has been very slow besides. A very large number of state enterprises (about 1,400)--perhaps too many--has been included in the list of enterprises of basic importance to the economy. The nomination of candidates for enterprise directors on a competitive basis has not become widespread.

The ultimate system of the reform was conceived on the premise of the existence of a near-equilibrium of the market, that is, of the operation of a certain competitive mechanism--through the mediation of imports as well. But the actual conditions under which the reform began to be applied proved to be much worse--not only than those assumed for the ultimate system but also than those assumed for the interim solutions. This was reflected both in the deep disequilibrium of the domestic market and in the deeper--than assumed--foreign disequilibrium and the attendant sharper deficit of foreign currencies needed for imports, especially for free-foreign-exchange imports. In such a situation, the introduction of a system for strict allocation of foreign currencies was an inevitable solution, even though it conflicted with the mechanism of the reform.

This is because the system for distributing hard currencies was of an arbitrary-negotiable nature, not linked to the profitability of exports. Furthermore, it was only after considerable delays that the principle of foreign-currency negotiations for minor complementary (of the gap-filling type) imports which are of vital importance to increasing output at certain plants, was introduced. Similarly, no effective mechanism had been created for inducing the growth of profitable exports.

The reform of producer prices was based on exchange rates that were lower than those applying to the clearing of accounts in foreign trade, and the latter soon declined owing to the marked increases in domestic prices.

The existing system of export incentives was focused chiefly on increasing the value of exports without proper allowance for their profitability. Many producers are thus insensitive to the level of foreign-currency prices, and the entire equalization mechanism is, like the foreign-currency credit accounts, of an arbitrary-negotiable nature which often assures producers with higher profits than those obtained on the domestic market regardless of the foreign-currency profitability of their exports.

In August 1982 some income tax relief and alleviation of regulations governing deductions to the FAZ [Plant Activation Fund] were granted in order to promote production for exports. Interest began to be paid on funds kept in foreign-currency credit accounts. The Economic Advisory Council regarded these changes as interim solutions and postulated at the same time the need to develop and apply a comprehensive system for stimulating the growth in profitable exports adapted to the realities of the existing economic situation. In practice, they became the context of changes in the system mandatory for 1983.

Early in December 1982 the Economic Advisory Council submitted to the government detailed proposals for systemic changes under the title "An Outline of Concepts for Stimulating the Growth of Profitable Exports." We supported the practical introduction of that system beginning on 1 January 1984 with the object of expediting the growth of profitable exports and making enterprises more interested in improving their economic performance as regards foreign trade.

The deep disequilibrium on the domestic market with regard to not only means of consumption but also producer goods has necessitated the introduction of state controls as well as of so-called operational programs intended to safeguard material supplies for protected industrial zones. Both the number and the scope of these programs proliferated in 1982 so that they ceased to fulfill their function.

The supply centers continue to be subordinated to branch and subsector ministries rather than to the ministry of materials management as had been postulated in the final draft of a study by the corresponding reform team--which strengthens the position of producers.

Inadequate efforts are still being made to utilize prices as a instrument for allocating producer goods and channeling the stream of raw and other materials to their most profitable allocations as well as eliminating the least effective users of these materials. Given the persisting wide gap between supply and demand, informal rationing is spreading.

In 1983 the number of operational programs was reduced and a system of orders placed by the government was introduced. The well-known phenomenon of setting too many priorities which do not perform their function and lead to super-priorities repeated itself. The programs at present give supply preferences but guaranteed supplies are reserved only for orders placed by the government. The problem of placing orders with the enterprises assuring their most effective implementation has remained unsolved.

In the sphere of enterprise investments, reports on lack of investment capital at enterprises are accompanied by reports that the scope of the utilization of bank loans is rather narrow. This may be due to the fact that enterprises are reluctant to commit themselves too much to long-range programs. This may also be due to the lack of funds for granting investment loans to enterprises in view of the fact that nearly the entire loan capital of the NBP has been committed to central investments. Irrespective of the above, the role of loan interest rates as an instrument for influencing the decisions of enterprises is minimal in view of the low level of these rates.

From the standpoint of discrete processes and segments of the economy, the picture of operation of the economy is markedly non-uniform. A mosaic of situations has arisen.

In construction, the sharp decline in output and work productivity has been accompanied by a rise in profits and income owing to the uncontrolled price increases. This has been a totally paradoxical phenomenon, because it was precisely in construction that this problem could have been solved more readily than elsewhere, in view of the possibilities for restricting investment demand and the relative ease of the application of norms. However, the lack of an actual system of norms and the improper functioning of the market and the credit system have enabled construction enterprises to gain funds readily while at the same time becoming much less productive.

A special situation has arisen in small-scale industry and services, where a different system of functioning had been introduced already in 1981. In that field, the free increase in prices has led in some cases to the appearance of a demand ceiling or even to a decrease in production owing to a shrinkage in demand (for certain services). Such a situation could have been regarded as close to system assumptions had not it been for the fact that the mechanisms of competition are fairly weak as regards services and that nearly all kinds of services are generally underdeveloped.

In industry, depending on the subsector, there operate various factors determining functioning and economic effects.

In mining, parametric prices are applied along with a system of internal clearing of accounts, subsidies, import priorities, and foreign-currency credits. But it is difficult to measure the extent to which the pro-effectiveness mechanism operates under these conditions--a mechanism that allows for, among other things, the long-range cost analysis of the development and extraction of resources--since the principal criterion of the performance of a mine is the important political and economic thesis of the maximization of current coal extraction. The scale and cost of production are determined by technological planning as well as by special provisions governing wages paid for work on free Saturdays and also by the militarization of the mines.

In the energy industry there has been no change in the operating model characterized by limited differentiation of rates for outside users and by the traditional method of directing the operations of discrete energy plants within the system. We cannot tell whether it is possible by now to introduce a different model.

In heavy industry the defense-industry enterprises and particularly important enterprises with supply priorities have been of a specific nature. In machinery industry the situation varies, being different for exporting enterprises, at which contract prices were not the real parameters, different for the producers of consumer goods, and lastly different for the producers of subassemblies and capital goods who--as it appears--met with the least resistance when raising prices. There also exist reports that the position of large heavy- and chemical-industry enterprises has been relatively more difficult owing to such factors as the progressive income tax reckoned in relation to degree of profitability based on processing cost, which in these industries is a relatively small element of production cost (the more so considering that depreciation rates have not yet been made more realistic). According to still fragmentary reports, wage increases in this group of enterprises have been lower than on local labor markets, which has resulted in a stronger efflux of labor force.

In the basic sectors of chemical industry a special problem has been that of depreciation of assets owing to the extensive depreciation of technological apparatus and the impossibility of replenishing it owing to lack of funds. This results in increased consumption of materials per output unit. In the cosmetics and detergents industry the abolition of rationing and the attainment of market equilibrium has augmented the effectiveness of operation of economic mechanisms.

In the textile industry, the principal factors affecting the level of production have been the particularly great employment-related difficulties due to the mass utilization of educational leaves. On the other hand, some cotton-industry plants have not experienced any major supply problems and have even, like food industry plants, often been operating on free Saturdays in order to assure the utilization of available raw material despite smaller workforces.

In agriculture, a reform of the operation of state farms had been introduced as early as in 1981. The autonomy of the farms has increased, though it did not markedly improve their effectiveness. On the other hand, the improved financial situation of state farms is chiefly due to advantageous changes in price relations.

A disturbing phenomenon has been the weakening of the influence of the economic mechanism on private farms owing to the agricultural price policies which have caused farm incomes to rise at a much faster rate than deliveries to the countryside. This has resulted in greater emphasis on administrative methods of allocating means of production to agriculture, as well as on methods of linked sales [linkage of sales of farm equipment to deliveries of farm produce]. No form of state control over means of production has, however, assured their rational allocation. The inefficient utilization of land is moreover compounded by the land tax, which has not been revised since the early 1970s, and which compels farmers either to increase crop yields or to surrender their land to more efficient users.

It follows from this brief review that various factors have been constricting the scope of decisions of enterprises irrespective of the operation of the reform.

A poll conducted by the Economic Advisory Council shows that too many enterprise directors have linked progress in production to the reform. Nearly 60 percent of the directors polled stated that the reform has had little or no effect on changes in structure and variety of production as well as on innovativeness (54 percent), improvements in quality (49 percent), utilization of fixed assets (39 percent) and--unfortunately--conservation of energy and materials (38 percent).

In reply to the question of what kinds of potential have not so far been activated by the reform, the respondents most often named:

- reduction of material costs (78 percent);
- utilization of work time (73 percent);
- utilization of fixed assets (73 percent);
- technological progress and modernity (71 percent);
- rationalization of employment (67 percent).

On the other hand, all enterprises were in accord that administrative restrictions on their freedom of action have disappeared or lost their importance.

The fact that the growth rate of production has been slower than expected by many institutions prompted a search for ways of influencing this fundamental economic process. Decree No 186 linked a more rapid growth in production to exemption from deductions to the FAZ, and at the threshold of 1983 the system of discounts and exemptions has been expanded. The scale and procedure for obtaining these discounts and exemptions elicit major reservations in view of their arbitrary nature. Against this background--and particularly in view of the high wage increases during the fourth quarter--proposals for regulating the distribution of profits have been renewed.

The chief reason why the greater freedom of action granted to the enterprises has not stimulated broader pro-effectiveness and counterpoising programs has been their loose financial operation which enabled them to offset excessive production costs by setting prices as they saw fit or by benefiting from the broad possibilities for obtaining discounts, exemptions, and surcharges.

The lack of pro-conservation pressure has resulted in its own negative feedback: the shortages of raw and other materials and foreign exchange as well as the demand for manpower have not been diminishing. This has perpetuated the need for a central allocation system and the operation of intermediary organizational structures and served as a premise for preserving arbitrary-negotiable forms of the allocation of resources by the central authorities and their agencies. By the same token, the prospects for a fuller application of the price mechanisms of allocation--which promote effectiveness more than do administrative methods--have receded and the effectiveness of the parametric instruments used by the central authorities to guide the economic activity has been declining. This poses the issue of so-called hard financing, discussed more broadly in the aforementioned Council study.

The year 1982 is often considered as the first year of operation of the reformed economic system. But it would be more proper to say that this was the first year of reforming the economy, because we existed in an interim period when the old system was no longer operative and the new just began to mature.

First, the process of the formation of legal foundations of the reform was protracted in time.

Second, the operation of the economy in 1982, as in 1983, has been in most fields governed by interim regulations, due chiefly to the existing scale of domestic and foreign disequilibrium.

Third, the one-year period was not sufficient to publicize the new principles of functioning of the economy in the mind of the public, despite some positive manifestations as regards, e.g. the managerial cadre.

The application of the reform revealed many contradictory social expectations as to the economy: fluid wages but stable prices and a market equilibrium; growth of production and supply but also more leisure time and more social rights; growth of material incentives but also assurance of greater equality of incomes; distribution of scarce goods to satisfy the principle of social justice versus their distribution in accordance with market prices. These social expectations have not remained without influence on economic policy. Thus, the spread of the understanding that the application of the reform is a long-lasting process, that new processes have just begun to be implemented, and that we have been existing in an interim period, is particularly important.

[22 May 83, p 10]

[Excerpt] Summation

There is no other way to begin the summation than by mentioning the issue of the prevention of unemployment. The fear of mass unemployment was baseless, and the 1981 forecasts had exaggerated the issue greatly. The deactivation of a certain category of workers [early retirement] contributed to defusing the threat of unemployment, but it also led to major problems in certain types of production that will not be readily surmounted in the next few years. Full employment is a basic element of socialist economic management, and the value of that element is striking against the background of joblessness in the capitalist countries. It is worth noting, besides, in this connection, that the labor productivity index is not as unfavorable as might seem from the figures on productivity per employee rather than per work hour. This does not mean, of course, that overemployment did not exist and that better utilization of the work factor has not been necessary.

Given all these reservations, the fact that the declining trend in industrial production has been reversed should not be underestimated, particularly considering that during the first quarter the high level of industrial output attained last December had been maintained and the polled enterprises expect their output to increase more than envisaged in the Central Annual Plan (this may not happen, but it does at least demonstrate an active and optimistic attitude of the cadre). It is to be wondered whether the increase in marketed output has been accompanied by a commensurate growth in effectiveness of management. One is also apprehensive because that increase has been accompanied by deterioration of quality. It appears indisputable, though, that the industrial organism has proved to be more resistant and stronger under the conditions of 1982 than had been feared at the beginning of that year.

It is particularly essential to state that the indicator of flexibility of national income vis a vis imports proved to be much more favorable than the hypothetical indicators on which the model forecasts made at the beginning of 1982 had been based. It does not matter whether this was due to the use of domestic substitute materials or to conservation of materials or lastly to changes in production structure in favor of less raw materials-intensive types of production: what matters is that the shock produced by the decline in imports has not led to the negative consequences expected by some.

To what factors do we owe this favorable phenomenon? There have been so many causes of it that it cannot be broken down into causative factors such as the application of the reform, an active attitude of the cadre, improved performance of workforces, etc. It appears certain, however, that the phenomenon of the "self-strengthening" of economic processes has been a weighty factor: the crisis is producing new crisis phenomena, while even a slight improvement brings into play new factors in improvement. The reversal of the production decline should release this self-strengthening mechanism.

Despite the low level of production and the high inflationary overhang, some success has also been achieved in calming and even ordering the market. More specifically, in this field positive processes combined with negative ones, namely, with the worsening imbalance between the supply and demand of basic staple manufactured consumer goods (clothing and footwear). It can be thought, however, that we are in the process of overcoming the most unfavorable phenomena and hence also that the calmed segment of the market will grow in extent. It has proved possible to abolish the rationing of several consumer goods, even though they are

not the basic staples. Further progress is, of course, linked to the growth rate and structure of the production of consumer goods, but in more than one field, e.g. with regard to durable consumer goods, it also hinges on price increases and the halting of the growth of the inflationary overhang.

It is impossible, on the other hand, to speak of successes as regards the huge commitment of investment funds inherited from the voluntarist investment program of the 1970s. The related decisions have been at best half-way measures--the National Social and Economic Plan [NPSG] envisages a new selection of continuable investment projects to be decided upon only during the third quarter of this year. The financial and implementation possibilities thus remain excessively burdened by the creeping program of continued investments, which entails the danger of insufficient possibilities for the modernization and even simple renewal of aging facilities and the widening of the technological gap between our country and the most advanced countries. For while some favorable though not yet sufficiently large shifts can be observed in current production, no shifts are as yet taking place in the structure of fixed assets.

Lastly, there is no need to prove that the inflationary threat, though somewhat changed in nature, continues to be acute. It may be that in view of the concentration of the inflationary overhang within limited groups and in limited areas we are at present dealing to a greater extent with perturbations in the distribution of national income than with a direct threat of hoarding of staple goods (the studies so far have been inadequate for a conclusive judgment). However, even if that were indeed so, the discontent of queues in front of stores would be supplanted by growing protests against speculation and the amassing of personal fortunes by some individuals. This is not a trivial issue considering the allergic reaction of an overwhelming majority of the working class to price increases which, to be sure, subjectively are the greatest irritant but objectively represent the most rapid and effective measure for eliminating the inflationary overhang (of course, if certain conditions are met). Summing up, however, it has to be stated that as regards the control of inflation we are in not much better position than we were at the beginning of 1982.

The conditions under which the reform has been applied involve an inevitable contradiction between the policy of controlling inflation and the policy of strengthening and streamlining the incentive system, considering, of course, that the balance between supply and demand is the basis for the full effectiveness of any incentive system. If the imbalance in this respect persists, the pressures for wage increases grow in disregard of the need to restore the balance. This vicious circle could not be broken.

In addition to the principal issues considered above on their merit, we wish to mention two more groups of issues:

--the information bases and the circulation of information, analyses and forecasts;

--attitudes of the people.

As regards the information bases, this concerns, on the one hand, the decentralization and enrichment of the traditional system of statistical information as well as complementing it with consistently conducted polls and, on the other, the construction of a so-called system of early warning signals. The circulation of information leads to the problem of cohesiveness and moderation of the inferences

drawn as well as the problem of self-censorship (not censorship!) in transmitting indeterminate or faulty information and assessments.

Concerning forecasts, the experience of 1982 has produced, unfortunately, a bundle of forecasts and simulation models constructed at a rather low level. We have mentioned earlier the mistaken forecasts of employment, the underestimation of the effect of the introduction of uncontrolled prices and the issue of the budget, whose expenditures were not seriously misestimated but whose anticipated revenues had nothing in common in reality. To be sure, the conditions in 1982 did not contribute to the correctness of expectations. At present, however, it appears possible to markedly improve the accuracy of forecasts, as this is extremely important to not only the decisionmakers but also public opinion which, not without reason, regards that accuracy as a fundamental prerequisite for an efficient functioning of the planned economy.

The issue of human attitudes is outside our competences, and we shall refrain from discussing it, with one exception. During last year we lived through several waves of mistrust, either of the authorities toward the enterprises or conversely. In the former case, sometime half-way during last year the central authorities adopted the view that most enterprises are passive and do not exploit their production potential. This view led to the adoption of unfelicitous resolutions intended to stimulate production. By year end the high wages paid by enterprises were generally regarded as a manifestation of the self-will or unconcern of enterprise directors, whereas in reality such wage increases were only a marginal factor whose extent has not, besides, been determined. And conversely, the managerial cadre, or at any rate a large part of it, sometimes gave way to the temptation of looking for "the hole in the doughnut" of the decisions of the central authorities, especially as regards some or other systemic regulations. Moderateness of assessments appears to be a requirement that should be meticulously observed.

Warsaw, April 1983.

1386

CSO: 2600/893

OUTGOING ECONOMIC ADVISORY COUNCIL CHAIRMAN INTERVIEWED

Warsaw ZYCIE GOSPODARCZE in Polish No 17, 24 Apr 83 p 5

[Interview with Prof Czeslaw Bobrowski by Karol Szwarc: "Failures and Successes"]

[Text] [Question] Professor, how should one treat the statement contained in the Easter issue of ZYCIE WARSZAWY that you want to retire in a year from the chairmanship of the Economic Advisory Council? Is this an intention or a dream?

[Answer] It is probably just a dream, as well as an intention. But it is a conditional intention. If the rate of inflation were to be cut in half and the rate of the growth of production were to be increased by half, then I could already make a decision to become a "free" man. It doesn't look much like it, however.

[Question] And what is this dream about?

[Answer] I think that after my resignation I would have more freedom to express myself. The post of the chairman of the KRG [Economic Advisory Council] hinders me in this, since I do not always have the feeling of a consensus, and sometimes I would like to put matters more sharply than the Council ought to do, because from the nature of things the KRG can use sharp formulations, but it should not shout. But sometimes, in order to be heard, it is necessary to have recourse to shouting.

[Question] What would you do if you were not the chairman of the KRG?

[Answer] First of all I would write more, and I would give fewer interviews, which are an escape from effort. In general, I would reduce my efforts. I am an old and tired man. I feel like an old actor who performs with vigor on the stage, but is exhausted when he leaves it. No one wants to believe me!

At this point I want to cite a wise maxim from a friend of mine, the famous French demographer Alfred Saury. He said that one should not retire from work, but from obligations, before it turns out that one is physically unable to meet these obligations.

If I were a "free" man, maybe I would not work much less, but on the other hand I would do it with more freedom and with less haste. Maybe for amusement, I would write articles for ZYCIE GOSPODARCZE every week under the joint title of "Polemics."

[Question] I am taking you at your word.

[Answer] All right. But this will not come into consideration until 1984, after I am 80 years old.

[Question] Do you have reason to be satisfied with this year of the council's work?

[Answer] There have been better and worse periods, satisfaction and dissatisfactions.

I am no longer as demanding as I once was. I have been thoroughly persuaded so many times under different circumstances and in different countries that an advisory function never yields 100 percent results.

On the whole, nevertheless, I think that the results of the council's work are decent. I thus do not have a feeling that I have done something stupid in giving in to an entreaty. I gave in to it, after all, a big like a cavalry horse that hears a trumpet. That trumpet resounded together with the crisis. Until 1980 I sat quietly. Then, as I put it, I was "seduced" by General Wojciech Jaruzelski, for whom I have enormous esteem and sympathy. I became involved gradually and to an increasingly greater extent: first in an assessment of the government report on the state of the economy and in the work of the Commission on the Economic Reform, and then the question of the KRG came. I became involved in the Council business all the more willingly because in November 1981 there was an intention that in addition to purely economic tasks, the KRG would provide a stepping-stone for a national understanding. Unfortunately, this plan fell apart upon the replacement of the conflict by a confrontation.

[Question] What specifically, however, is this satisfaction or dissatisfaction based on, Professor?

[Answer] That depends on the type of activities that we conducted.

I am leaving out the small matters that I once described as like getting into a train in motion. Our suggestions on these were never used. For example, recent in the draft law on territorial development, the principle of a 99-year lease was abolished, which really tied the hands of city planners. Our proposal to maintain the past practice in this area was taken into consideration.

But the real satisfaction, or lack of it, comes together with successes on matters of more importance.

Among the major actions that were not very effective, I can count above all the "Cautionary Prediction" of last June. It emphasized the need for anti-inflationary activities. I cannot say that we had much success in this matter. Some of the suggestions made there were adopted--the easiest and simplest ones; it is well known that in Poland the easiest thing to do is to raise the price of vodka. Furthermore, they were not implemented at once, although every month of delay in making decisions on raising prices induces a higher increase. For example, at the present time there is speculation in carpets, freezers, and furniture; if our proposals had been accepted, either this speculation would have been reduced, or in the case of certain goods, it would even have ceased. Furthermore, our proposal had to do with the turnover tax, and not an increase in prices for the producer. A surplus could thus go directly to the budget without passing through the enterprise, where it could be changed into an increase in wages. In this way, the solution would have a pronounced deflationary effect. This proposal has not yet gone beyond the stage of discussion. It is thus difficult to consider this action a success.

During the development of the measures for the reform for 1983, we voiced an alternative proposal with respect to Professor Baki's project. Not all of our proposals were proper....

[Question] Excuse me, what does that mean?

[Answer] They were not all proper in the sense of having a certainty that they would work in a certain way and only in that way. Therefore, I am also not lamenting because some of them were not adopted. On the issue of the FAZ [Vocational Activization Fund] a formula was adopted that took our position into account a bit. On the question of restraining the movement of prices, we proposed establishing an institution of complaints from consumers about excessive price increases, of accusations, to put it jokingly, to the Office of Prices. This solution was not adopted. Instead, analogous authorities were established for the ministries, the founding organs. Here I can probably say that we were right on this.

[Question] What are you basing this certainty on?

[Answer] Overall, barely a few such complaints reached the Office of Prices. This is understandable, since after all the ministries do not have any inclination to act against the enterprises.

But something did come of our proposals. I am thinking, for example, of the foreign-exchange competition for imports of the proverbial gaskets. Later--it could have been half a year ago--the press announced the first auction. As it appears from the newspaper reports, 27,000 zlotys of production is obtained from 1 dollar. And that means something.

[Question] Recently, in our pages we published the KRG's report on the reform. Don't you feel satisfied on this occasion?

[Answer] I do not hesitate to say that this text is a sort of enrichment of our way of thinking. And this itself will never be lost, even if it is not the basis for immediate decisions.

In this document, we presented a way of understanding that was based on not concerning oneself with whether we are a meter or a kilometer short of implementing the "Guiding Assumptions," and not interpreting this distance as the result of someone's ill will, not personifying responsibility, not seeking a settling of accounts, just taking into account the entire group of conditions that determine solutions yielding results sometimes and not doing so other times. Thus, viewing the essence of this text, one must state that several conclusions coincide with Professor Baki's, and other theses proposed by us led to a coordination of assessments, while others have been acknowledged as suggestions for the future.

[Question] Can this be repeated in regard to the work on the 3-year plan?

[Answer] Formally, I should be very satisfied. In spite of the customs prevailing among us--which are not too elegant--I received from Deputy Premier Obodowski a letter expressing particular appreciation for the KRG's great contribution to the construction of the plan.

The effort was very great. And it was not wasted on every occasion. One entire section, "Instruments for Implementing the Plan," was thoroughly redone, and I think that it is better than it was. But there is no rose without thorns. Differences in views remained, however. Strictly speaking, practical experience may resolve some of them. In our opinion, we placed the strongest emphasis on reducing the distribution of raw and other materials. In the present text, this is indicated only as a general intention. In practice it may turn out that there is no difference on this.

But there was a more pronounced thorn. For example, in the anti-inflation program there is something that I consider to be unfortunate, for various reasons. It is the proposal to freeze producer prices until the end of the year.

[Question] But didn't you present the same proposal yourself in the Commission on Economic Reform?

[Answer] I am absolutely in favor of the principle of freezing prices per se. But not for such a long period and not in such a categorical manner. We proposed a 3 month freeze at first, and then three different methods for emerging from it. It is unfortunate that this was not adopted.

[Question] Are there other thorns?

[Answer] Yes, but they are smaller. For example, the hypothesis that handicrafts will be increased by 68 percent in the course of 3 years. It is probably not based on anything. But what is more important is that I recall that this was the only major error in prediction in the first 3 year plan, and that there was a similar error after October 1956. This mistake is perhaps based on the fact that people imagine that the creation of handicraft shops is a very easy thing. This does not have to do with technical difficulties. The creation of these shops is almost a biological process, with a gradual emergence, a gradual development, and a gradual transition, by generations, from journeyman to master. This error, however, does not represent anything more than a loss of prestige for the one making the prediction. There will be neither more nor less handicrafts as a result of this.

[Question] During a recent discussion with our weekly, you stated that you did not like that anti-inflation program.

[Answer] This does not apply to the principle itself or to the general direction. I will also not find fault with the formulation per se of the text of the program, although I really do not like it. I will concentrate on the contents. I am afraid that a proper emphasis on the primacy of production activities in the struggle against the disequilibrium may, in society's perception, lead to a weakening of the awareness that price operations are also necessary.

In the council, we have given expression more than once to our support for a stabilization of prices for basic food articles and for standard industrial products. At the same time, we are requesting that there be no delay in raising prices and taking decisive action with respect to goods of further categories, most of which are consumed by wealthy people and which are still an object of speculation. Nevertheless, I am concerned that the increase in prices might be conducted in the same manner as was intended in 1976, when the increases covered an interminable list of goods, even ones that were not on the market.

[Question] What will the council be concentrating its attention on in the near future?

[Answer] I have a feeling that there is a serious shortage of information, delays in information, and a failure to adapt the nature of information to the new form of the economy. We want to know about the outlines of the conduct of individual types of enterprises. The earliest efforts have already been made in this direction, and we have conducted two polls among enterprises. In accordance with our proposals, the Planning Commission has already begun a discussion regarding extensive changes in the system for obtaining information, especially information that should be early warning signals. We will continue these activities, in order for the decisionmaking processes to be based on the most complete knowledge at a given moment.

Another issue is the assessment of the course of 1982. We are devoting extensive work to this. This is our statutory authority and our statutory obligation. It is too early to speak about details here. It will be an attempt at considered analysis. Obviously, we will state the extent to which the intentions were carried out and the extent to which they were not realized, when the government made mistakes or achieved successes. But the main point of view is how much we are changing the structures and mechanisms for the functioning of the economy, and how much the changes that are being made are becoming a better basis for the transition from extensive to intensive methods of management.

I have hopes that shortly the text will be ready and that we will also be able to make it available to the readers of ZYCIE GOSPODARCZE.

[Question] Thank you for the interview.

9909

CSO: 2600/842

WORKERS AKTIV PROPOSALS ON PRICES ADDRESSED BY GOVERNMENT OFFICIAL

Warsaw TRYBUNA LUDU in Polish 13 May 83 p 5

[Article by A. Kozminski: "Government Representatives--In the Columns of TRYBUNA LUDU; How Can Excessive Price Increases be Limited? A Reply to Attendees of the National Worker Aktiv Conference"]

[Text] Excessive price increases are upsetting public opinion, which also has been expressed in the proposals forwarded at the National Worker Aktiv Conference. Among these proposals we selected those that correspond, in our opinion, most aptly to the public mood. Wojciech Pruss, undersecretary of state at the Office of Price Affairs, replies to these proposals.

Mieczyslaw Kostyla, worker and Solidarity secretary at the ASPA Welding Equipment Plants in Wroclaw, postulated that the planned price increases should be delayed in order to ameliorate the public's mood and to take away the arguments of political opponents, or the problem should be approached in a prudent and thoughtful way.

Ewa Slowinska, director of the Fordan Fruit and Vegetable Processing Plants in Bydgoszcz, believes that "all interested people should form a common front of actions to halt the unreeling spiral of inflation by opposing excessive, often unjustified price increases."

Jerzy Zieba, PZPR Central Committee candidate member and first secretary of the PZPR KZ [Plant Committee] at the Krakow PZL [Polish Aviation Plant] proposed that "the three types of prices should be abandoned. Prices should be based on actual costs of production and controlled margins."

Bogdan Jedrzejewski, a foreman at the Meratronik Electronic Measuring Equipment Plant in Warsaw, proposed that: "Stipulated prices should be eliminated. The prices of all products should be revised."

Wojciech Pruss: "All of the proposals converge; they aim toward one goal, that is the need to limit excessive price increases. Thus, my replies will not address exclusively the questions posed, which are especially characteristic."

## Price Increases Are Last Resort

The provisions of the "Government Program to Counteract Inflation" and the "Program for Economizing" are in the direction of the proposal suggested by citizen Mieczyslaw Kostyla. The aims of the actions specified in both programs also are in agreement with citizen Ewa Slowinska's proposal, which I think is the most pertinent one. In these programs emphasis is placed on using all possible means to increase production and the supply of goods, and on disciplining the payment of compensations and linking them with real labor productivity and the need to realize specified economizing goals.

As a result, there will be less need to use prices as an instrument to counterbalance peoples' money incomes with the supply of goods and services. Actions based on price increases are the last resort used to stabilize the market situation. With the successful implementation of the mentioned programs, it is expected that the upward movements of prices will be limited to such dimensions that the increase in the overall level of prices will not exceed several percent annually.

For social reasons and also considering the rationale mentioned in citizen M. Kostyla's proposal, it should be especially emphasized that price increases for staple food articles, services and industrial articles of a standard nature purchased by low- and middle-income people, and price increases for above-standard articles and services to satisfy the needs of another order will be treated differently.

Relatively greater stability is assumed in the first area, and all price increases that turn out to be necessary will be approached with special consideration; in important matters, it is anticipated that there will be prior notification and consultation.

But the prices of so-called above-standard articles for which the demand is much greater than the supply can and should increase correspondingly faster in order to gradually normalize the market, to eliminate speculation and to achieve a state of balance for increasingly greater numbers of articles. After all, healing the market situation is one of the most important ways of improving the public mood and depriving political opponents of arguments.

## In Accordance With the Reform

I presume that the aim of citizen Jerzy Ziemba's proposal is to eliminate stipulated prices and replace them with official or regulated prices that are based exclusively on their production cost model.

However, eliminating stipulated prices would be in contradiction to the economic reform assumptions which are based on the principles of enterprise independence and self-financing and limiting the scope of prices determined by state administration organs.

If stipulated prices were to be replaced by official and thus uniform prices that are based on the average costs of production of designated products, then it would be necessary to implement an expanded system of subsidies for those producers whose costs are much higher, because of their objectively worse production conditions and whose production in the current unbalanced market situation is still needed, than those of the average producers. At the same time, expanding the scope of production subsidies would encourage enterprises to partially or wholly lose interest in improving labor results and expanding production.

If regulated prices were accepted as a universal, uniform model for prices that were ascertained, as suggested in the proposal, on the basis of actual costs of production and controlled margins, then this solution would also cause economic units to lose interest in improving work efficiency. Higher costs would constitute the basis for raising prices, and lowering costs would force a producer to lower prices without any assurance of any additional advantages for taking on this effort.

Stipulated prices are an important element of the implemented economic reform as a tool for the self-regulation of the activities of independent economic subjects. In this system, the possibility of obtaining favorable results is a signal to increase production and to adapt it to the needs of the market.

#### Controls and Their Effects

The prices of articles that are of great significance in family budgets are not set arbitrarily. They are included either in the category of official prices established by the state or in the category of regulated prices established by an enterprise according to the principles strictly determined by authorized organs of the state administration.

Prices of the remaining articles that are established in the stipulated price system are not set completely arbitrarily.

There must be agreement with the need to combat unjustified price increases by the enterprises. Such practices by enterprises are being and will be resisted by various means.

All enterprise actions in the sphere of setting and using prices, including stipulated prices, are controlled extensively by the Inspectorate of Prices of the Office of Price Affairs and also partially by other control organs. In accordance with the statute on prices, if it has been ascertained that an enterprise--by virtue of its monopoly position--is making profits that differ greatly from the norm, then the minister of price affairs can deprive that enterprise of the right to establish stipulated prices and require it to use regulated prices for a specified time period. In 1982 the minister of price affairs made such decisions with regard to several dozen enterprises. After initiator organs analyzed the profitability of enterprises, several dozen additional enterprises lost the right to set stipulated prices at the beginning of 1983.

This type of action is continuing. Considering the need to apply more efficient means to counteract unjustified increases in stipulated prices, on 1 May 1983 the government froze for 3 months the stipulated prices of supply and investment goods, a right granted to the government by the Sejm in the statute on prices. Freezing the stipulated prices of supply and investment goods for 3 months should stabilize during this time the production costs for all finished products. The price freeze period will be used by the ministry of price affairs to prepare and submit to the government long-term methods to counteract unjustified price increases and that bring about undeserved benefits to the enterprises.

Citizen Bogdan Jedrzejewski's postulate concerning revision of prices appears to go a bit too far if it means that all prices should be changed. It should be emphasized that the basic disproportions existing in the structure of supply prices and retail prices were eliminated by the price reform introduced at the start of 1983. Additional important price changes were introduced in the following months of 1982 and the first quarter of 1983 in accordance with approved assumptions. Additional price reforms are included in the program for price changes for the 1983-1985 period.

To assure a proper price policy in accordance with the public interest, prices of basic food articles will be stabilized, and the prices of industrial articles of a standard nature will be maintained at a lower level while at the same time the prices of above-standard products for which demand is much greater than supply will be increased correspondingly.

11899

CSO: 2600/888

PAP POLLS BLUE-COLLAR WORKERS ON PROGRESS OF ECONOMIC REFORM

Warsaw RZECZPOSPOLITA in Polish 5 May 83 pp 1, 5

[Text] Journalists of the Polish Press Agency conducted a survey in work establishments on the economic reforms. Several hundred of the workers' responses were collected, in which they evaluated both the progress up till now of the reforms introduced and the proposed corrections to the reforms which have been put into practice. Several conclusions and postulates for applying new, more effective solutions in the working of the reforms were also submitted.

The opinions they expressed were often critical, but they all emphasized the necessity for further, consistent implementation of the directions for economic reform taken at the Tenth Congress of the PZPR. Here are the subsequent responses of the workers, gathered in the framework of the PAP survey.

Zygmunt Ceblua, head mechanic, chairman of the workers' council at the Zgoda Technical Fittings Plants in Swietochlowice:

I can only speak well about the reforms in our plant. As testimony to that are the production and financial results we achieved last year and in the first quarter of this year; with decreased employment, we increased the value of sold production by 12 percent and increased exports to the socialist countries by 59 percent. In the first quarter of this year we exceeded production tasks by 10 percent and to a large degree promoted the fulfillment of the increased export plan.

We also have large profits. We have used them, among other ways, to increase wages, a fact which allowed us to put a check on specialists' leaving for better paying plants, a phenomenon which occurred until recently and which was disadvantageous for our plant. The supply of materials causes us the most trouble at present, most of all, the delivery of certain metallurgic goods and of paint and varnish, also.

Jadwiga Kurpik, vice chairman of the workers' council at the Wanda Hoisery Industry Plants in Sosnowiec:

This is the second year we have been working under reform conditions. It is still difficult to give an unequivocal evaluation of the economic effects. That will be possible when the legal situation of the reform solutions is more stabilized. It is still impossible now, when the rules change rather often. So far the motivational system has already begun to have an effect. The reforms introduced are not furthered, on the other hand, by the relatively low increase in wages (0.5 percent with an increase in output of 1 percent). Under these circumstances the wages at Wanda are not attractive, and our workers are going to other plants.

Maria Rutkowska, chairman of the workers' council at the Dwikozy Fruti-Vegetable Processing Plants in Tarnobrzeg:

The changes introduced by the reforms have been well received by the working staff. The reforms have released an independence and have awakened the initiative of the plant managers and of all the workers. At present everyone realizes that it is worth it to work well. Work discipline has been achieved, among other ways, by introducing bonuses approved of and awarded by the foremen. We also highly value the plant's independence, as expressed, among other ways, in the right to freely decided about production variety. On the other hand, we do not benefit from the foreign exchange deduction, a fact which puts us in a very difficult situation with regard to supply.

Mieczyslaw Furgala, lathe operator in the tool-room department at the "Agromet" Agricultural Machinery Works in Lublin:

I have already experienced more than one reform, and I would like for the present one to succeed. I believe that too many people continue to work in an unproductive sphere, in administration. The organization of work is not the best, either. These phenomena attest to the fact that the reform mechanisms are not yet functioning as they should.

Andrzej Molita, chairman of the workers' council at the Zastal plants in Zielona Gora:

We cannot agree with the rules observed for joining unions. The poor situation with regard to supply and raw materials also causes great difficulties in the proper functioning of the reforms. For example, the production of coal-barges has been included as an operational program in Zastal, but even in this instance we have many difficulties with acquiring materials. Our wage system does not yet adequately motivate people to work to their fullest. We use monthly bonuses whose amount depends on actual work input. The white-collar workers can also earn more, but under the condition that employment in the administration of the enterprise decreases.

Mieczyslaw Taberski, welder at the Zastal plants in Zielona Gora:

The use of suitable wage incentives is essential. The present scale is too complicated. There must be a greater differentiation in wages, and the enterprises should decide how remuneration is to be divided.

Andrzej Biegus, assembly foreman at the Fasty Cotton Industry Plants in Bialystok:

The effects of the economic reforms have not yet been clearly felt in our plant. It is true that we are earning more, but this has little meaning because of current prices. Also there is less interest in increasing work output. Outdated work methods used by people who sometimes occupy the chief administrative positions are harmful to the reforms.

Zbigniew Marchel, brigade leader at the Sanwil Bedding Goods Plants in Przemysl:

The economic reforms are bringing positive results. There are no stand-stills in the plant, and more productive work has become better paid; and there are mobilizing factors toward achieving ever better effects. It only it were accompanied by quality and thriftiness! Thus, there are already incentives for more productive work, but not for thrifty work, and this is an important shortcoming in the mechanism of the reforms.

9451

CSO: 2600/931

REFORM COMMISSION TASK FORCE DRAFTS ANTITRUST BILL

Warsaw RZECZPOSPOLITA in Polish 20 May 83 pp 1,2

[Article: "Works on the Law: Against Monopolistic Practices -- Defending Interests of Consumers, Conditions for Healthy Competition"]

[Text] (From our own sources) (C). The economy's monopolistic structure, combined with directive-distribution management, developed monopolistic practices. The granting of independence to the enterprises is creating new dangers, in conjunction with the fact that competition is marginal, and the economy remains unbalanced. Therefore there is an urgent need to issue a law to protect the interests of consumers as well as those of the suppliers and receivers of goods, and to shield competition from monopolistic practices.

Group II of the Commission on the Reform has been working for several months on an appropriate draft law. The most recent session, held on the 19th of this month, was devoted to this subject as well. To be concrete, there was discussion of the procedure and sanctions to be used where monopolistic practices had been employed.

Under present conditions, say the provisions of the law against monopolistic practices, a monopoly is being exercised both by the economic units in positions of supremacy and by units with a minor market share, but the law is designed mainly to apply to units with the lion's share, because the monopolistic practices of other economic units are largely the result of the market imbalance and therefore should disappear as supply improves. The regulations of the law are also aimed at certain actions by the state administration concerning the possibility that a dominant position will be assumed.

The antitrust agency will initiate proceedings against a monopoly once it receives information from citizens, social organizations, the mass media, or bodies of the state administration or at the request of parties affected by monopolistic practices or of organizations representing their interests.

The next procedure proposed in the draft law, in order to determine the actual state of affairs, calls for the unit being examined to present oral or written explanations and to supply appropriate records. The antitrust agency may run an audit on the enterprise which is exploiting its market position. In connection with the document created, the plant management has the right to contest the facts presented or overlooked in the official investigation.

On the other hand, sanctions consist of cancelling the enterprise's right to set prices and turning this authority over to the price affairs ministry, but in the event monopolistic practices are found to have been employed, the enterprise will first receive a warning (in the law this is called an "order to desist" [restraining order]). The enterprise may appeal this decision to the voivodship court or other resorts, or to the antitrust court, whose decision is final.

The enterprise faces sanctions following any second audit -- such an audit is conducted 2 years after the order is issued -- if the enterprise does not abide by the instructions and recommendations issued. Members of group II are proposing that these sanctions consist of the enterprise's paying the budget economy a sum equal to three times the value of the losses incurred by the injured party or parties. This could also be 300 percent, regardless of the benefit obtained.

There is also provision for reducing prices on the item, but this would be to a level not lower than the enterprise's unit costs. The sanction provided in the draft law would also involve a declaration of revocation of agreements contracted by the party guilty of monopolistic practices and of certain fines which would be assessed to punish individually the parties responsible for the employment of dishonest practices. The fines proposed for these people are large, amounting to the equivalent of 3- to 6-month's salary.

The actual effectiveness of the issuance and application of the antitrust law concerning monopolistic practices harmful to consumers depends to a decisive extent on the state's economic policy and the general social climate.

10790  
CSO : 2600/950

## RESULTS OF JANUARY LIVESTOCK SURVEY PUBLISHED

Warsaw RADA NARODOWA GOSPODARKA ADMINISTRACJA in Polish No 6, 21 Mar 83  
pp 30-31

[Article by Krystyna Szelenbaum: "What the January Livestock Survey Showed"]

[Text] The results of a representative quarterly livestock survey conducted in January 1983 on private farms showed, in conjunction with data from a quarterly accounting from socialized farms, that unfavorable trends in cattle and hog breeding caused a significant decrease in the number of these animals at the end of 1982. The decrease in the number of cattle by 3.8 percent on the whole results from the diminished status of cattle in the nonsocialized economy by 2.5 percent and from the considerably sharp drop--7.7 percent--in the number of cattle in the socialized economy. The decrease in the number of hogs in agriculture as a whole by 8.0 percent results from the sharp drop in the nonsocialized economy by 11.4 percent, whereas in the socialized economy the number of hogs increased by 2.7 percent.

The status of the number of livestock at the end of 1982 is presented in Table 1:

Table 1

1)

2) Wyszczególnienie	3) Ogółem	Gospodarka uspołeczniiona			Gosp. nie uspoł.
		4) razem	16) tym:		
			per MROZ	RSP	7)
			5)	6)	
(17) w mln sztuk					
Bydło ogółem 8)	11,0	2,5	2,1	0,3	8,5
- krowy	5,7	0,7	0,6	0,1	5,0
- pozostałe	5,3	1,8	1,5	0,2	3,5
Trzoda chlewna 9)	17,6	4,8	3,4	0,9	12,8
- prosięta poniżej 3 mies.	4,7	1,2	0,9	0,3	3,5
- lochy na chów 6 mies. i starsze	1,7	0,4	0,3	0,1	1,3
- warchlaki i tuczniki	11,2	3,2	2,2	0,5	8,0
10) IV kwartał 1981 = 100					
Bydło 11)	96,2	92,3	92,2	94,1	97,5
- krowy	99,6	97,5	97,4	97,7	99,9
- pozostałe	92,9	90,4	90,2	92,9	94,3
Trzoda chlewna 12)	92,0	102,7	103,8	101,8	88,6
- prosięta poniżej 3 mies.	80,8	102,8	103,9	92,4	75,1
- lochy na chów 6 mies. i starsze	75,1	88,8	92,7	82,3	72,0
- warchlaki i tuczniki	101,3	104,5	105,4	105,8	100,1
13) sztukach na 100 ha użytków rolnych					
Bydło 14)	58,4	55,0	62,7	44,1	59,9
Trzoda chlewna 15)	92,9	104,0	100,7	117,4	90,0

[Key on following page]

Key:

- |  |  |
|--|--|
| 1. Socialized Economy                  | 10. Fourth Quarter of 1981 = 100       |
| 2. Enumeration                         | 11. Cattle                             |
| 3. Total                               | --Cows                                 |
| 4. Together                            | --Other                                |
| 5. State Farms of the MR and GZ        | 12. Hogs                               |
| 6. RSP                                 | --Piglets less than 3 months old       |
| 7. Nonsocialized Economy               | --Breeding sows 6 months old and older |
| 8. Total cattle                        | --Shoats and porkers                   |
| --Cows                                 | 13. Head per 100 Hectares of Farm Land |
| --Other                                | 14. Cattle                             |
| 9. Hogs                                | 15. Hogs                               |
| --Piglets less than 3 months old       | 16. Including:                         |
| --Breeding sows 6 months old and older | 17. In millions of head                |
| --Shoats and porkers                   |  |

We Have 11 Million Head of Cattle...

As a result of the increased sale for slaughter of calves, young cattle, and cows, the number of cattle decreased to the level of 11 million head, which denotes a drop of more than 0.4 million head (3.8 percent) in relation to the status at the end of 1981, and of approximately 1.8 million (that is, 14 percent) in relation to the highest December figures recorded in the postwar period in 1974.

The decrease in the number of cattle is the result of the restriction of cattle breeding both by private farmers and, to an even more intense degree, the reduction of the herd in the socialized sector.

In the private economy, the number of cattle at the end of 1982 totaled 8.5 million head, and in comparison with the status a year before it had decreased by 220,000 head, that is, by 2.5 percent. The decrease concerns mainly the number of young breeding cattle and feeder cattle, which were reduced by 5.7 percent. The number of cows indicates somewhat greater stability, and despite the observed--especially in the second half of 1982--increased supply of cows for procurement for slaughter, it decreased only by 0.1 percent. This fact signifies that the natural selection achieved by sorting out cows from the basic herd was equalized to a significant extent by introducing young cows into the herd as a result of the calving of the heifers, whose number as late as June 1982 considerably exceeded the number a year earlier.

Table 2 presents the course of the procurement of calves and cows in the second half of 1982:

Table 2

1) Wyszczególnienie	1976- 1980 a/	1981	1982	1981	1982	
2) w tysiącach sztuk				1976-1980=100		1981=100
Skup cieląt 3)						
III kwartał	157	113	333	57,4	169,0	294,7
IV kwartał	75	24	86	32,0	117,3	366,7
II półrocze	272	137	421	50,4	154,8	307,3
Skup krów 4)						
III kwartał	184	116	211	63,0	114,7	181,9
IV kwartał	367	137	202	51,3	109,4	213,1
II półrocze	451	252	503	55,9	111,5	199,6

a/ average yearly figures

Key:

- |                          |                        |
|--------------------------|------------------------|
| 1. Enumeration           | 4. Procurement of cows |
| 2. In thousands of head  | 3rd quarter            |
| 3. Procurement of calves | 4th quarter            |
| 3rd quarter              | 2nd half of the year   |
| 4th quarter              |                        |
| 2nd half of the year     |                        |

In the last months of 1982 a seasonal drop in the prices of cows and heifers was observed in free-market turnovers, with a continuing high level of these prices in comparison with the same period in 1981. The prices of cows in December 1982 formed at the rate 46,000 zlotys per head were 9.1 percent lower than in December 1981. The prices of 1-year-old heifers were formed at the rate 25,000 zlotys and were 3.2 percent lower than the year before.

Table 3 presents the free-market prices of livestock in 1982.

In the socialized economy at the end of 1982 the number of cattle totaled 2.5 million, including 0.7 million cows, and was more than 200,000 head (7.7 percent) less than the previous year, the number of cows being about 20,000 (2.5 percent) less than the previous year. The number of cattle decreased by 7.8 percent on the state farms and by 5.9 percent in the production cooperatives. A further limitation of the size of livestock production continues to be observed on the combined farms of the agricultural circles--the number of cattle in these units has already been reduced to 20,800 head and is 23.2 percent lower than at the end of 1981.

It should be noted here that the sharp decrease in the number of cattle in the socialized economy in the fourth quarter of 1982 took place with higher purchases of these animals from private farmers than in the fourth quarter of 1981 (22.5 percent higher).

The decrease in the number of cattle noted at the end of 1982 in relation to the level at a similar period in 1981 was universal throughout Poland and occurred in nearly all voivodships with the exception of the Bialystok, Bielsko Biala, Konin, and Plock provinces, in which the number of cattle increased by 0.6 to 2.7 percent.

Table 3

Wyszczególnienie 1)	2) Ceny wolnorynkowe zwierząt w 1982 r.												1983 r. I
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	
3) <u>Krowa dojna /w tys.zł/</u>	52,0	55,3	55,1	53,7	52,0	50,9	49,6	47,4	46,4	45,5	45,6	46,1	46,9
poprz.mies. = 100	102,7	106,2	99,7	97,5	96,8	97,9	97,3	95,5	98,0	98,1	100,2	100,9	101,9
analog.mies.poprz.r. = 100	270,0	278,7	266,6	210,4	176,3	160,7	140,4	127,1	114,2	104,8	97,9	90,9	90,2
4) <u>Jasówka jednoroczna /w tys.zł/</u>	26,1	28,1	28,2	27,7	26,8	26,7	26,0	25,1	25,2	24,9	24,9	24,7	25,4
poprz.mies. = 100	102,1	108,7	100,4	98,0	96,9	99,4	97,7	96,2	100,4	99,0	99,8	99,5	102,5
analog.mies.poprz.r. = 100	244,1	253,9	248,1	196,9	172,7	162,3	147,1	133,4	122,8	113,7	105,3	96,8	97,2
5) <u>Prosiąt na chów /w tys.zł/</u>	3,3	3,2	2,9	2,6	2,1	2,0	1,8	1,7	1,6	1,7	1,7	1,8	2,2
poprz.mies. = 100	103,6	97,6	90,9	89,3	78,7	95,7	90,2	98,5	91,5	104,6	99,4	110,7	118,6
analog.mies.poprz.r. = 100	313,7	279,8	187,4	128,3	100,7	101,0	90,1	82,2	64,8	55,1	55,3	57,8	66,2

Key:

- |   |  |
|---|--|
| 1. Enumeration  | 4. One-year-old heifer /in thousands of zlotys/<br>Previous month = 100<br>Same month the year before = 100  |
| 2. Free-Market Prices of Livestock in 1982  |  |
| 3. Milch cow /in thousands of zlotys/<br>Previous month = 100<br>Same month the year before = 100 | 5. Piglets for breeding /in thousands of zlotys/<br>Previous month = 100<br>Same month the year before = 100 |

The most disadvantageous changes in the number of cattle, expressed as a decrease of more than 5 percent, took place in 12 voivodships: Biala Podlaska, Gorzow, Legnica, Lublin, Olsztyn, Piotrkow, Radom, Siedlce, Tarnobrzeg, Tarnow, Zamosc, and Zielona Gora.

...And 17.6 Million Hogs

Smaller harvests of potatoes, hay, corn, and root fodder crops this year than last year and the simultaneous lack of industrial fodder had a bearing on the intensification of unfavorable trends in hog raising in the second half of the year. As a result, at the end of 1982 the number of hogs totaled 17.6 million head, indicating a decrease of approximately 1.5 million head (8.0 percent) in relation to the status in December 1981, and a decrease of 4.1 million head, that is, 19 percent, in relation to the highest postwar status in December 1974. This decrease was determined by negative changes in the number of hogs in the nonsocialized economy, where the size of the animal herd decreased by 11.4 percent, with breeding sows decreasing by 28 percent and piglets by 24.9 percent. These disturbing changes noted in the herd structure are the result of the policy of limited mating of breeding sows that was maintained for many months, with the simultaneous increased sorting of breeding sows out of the herd and their designation for procurement as butcher livestock.

But in the socialized economy, the number of hogs increased at the end of 1982 by 2.7 percent in relation to the level at a similar period in 1981, the increase being 3.8 percent on the state farms and 1.8 percent in the production cooperatives. This increase shows that both the state farms and the production cooperatives in the first year after the introduction of reform made decisions aimed at adapting the level and structure of livestock production to existing production conditions and channeled these conditions for effective utilization. In increasing the number of hogs, the socialized farms used the starting material from the private farms to a significant degree, purchasing more piglets from these farms than they had in 1981.

Hog breeding on the combined farms of the agricultural circles is limited the way cattle breeding is. The number of hogs in these units at the end of 1982 totaled 115,300 head and was 29.4 percent less than the year before.

The insignificant growth in the number of hogs in the socialized economy partially compensated for the sharp drop in this number in the nonsocialized economy, but disadvantageous changes in the herd structure (low share of the number of breeding sows and piglets in the general herd) had a restricting effect on the possibilities of rebuilding the number of hogs in 1983, even in the case of improved fodder conditions. At the same time, considering that in the structure of the number of hogs in the private economy at the end of 1982 an exceptionally high percentage (36 percent as compared with 27 percent in 1981) is represented by the group of 6-month-old and older porkers, and thus by a commodity group which in the near future should be supplied for procurement or earmarked for economic slaughter--considering these facts, we should be contemplating an intensification of the decrease in the number of hogs in this sector in the first half of 1983.

In the local section, the decrease in the number of hogs at the end of 1982 in relation to the level at the end of 1981 occurred in 44 voivodships, with the sharpest drop--more than 15 percent--noted in Warsaw, Ciechanow, Kielce, Krakow City, Lodz City, Ostroleka, Radom, Siedlce, and Sieradz provinces.

There was an increase in the hog herd only in five voivodships: Bialystok (0.8 percent), Chelm (1.5 percent), Elblag (1.4 percent), Koszalin (1.3 percent), and Zamosc (5.9 percent).

#### Symptoms of Certain Improvement

It should be noted that there was a certain check on some factors that are negative for the development of livestock production towards the end of 1982 in the complex of factors conditioning the development of livestock breeding, following a breeding regression of long duration. After the first signal in October of a check on the rapidly advancing one-directional falling trend in free-market prices of piglets from 3,300 zlotys per head in January 1982 to 1,600 zlotys per head in September 1982, and after the increase in the unit prices of piglets by 70 zlotys per head in October and the continuation of these trends in November through December 1982, a significant increase was observed in the free-market prices of piglets of 180 zlotys per head (up to 1,840 zlotys).

The increase in the prices of piglets in free-market turnovers affected the further check on falling trends in the breeding of sows at breeding points, for the index of the growth rate of sow breeding in January 1983 amounted to 67 percent in relation to January 1982, whereas this index totaled 63 percent in December 1982 compared to December 1981, 55 percent in November 1982 compared to November 1981, and 49 percent in October 1982 compared to October 1981.

The partial check on the growth trend in the sale of breeding sows for procurement--from a 140 percent increase in October to a 66 percent increase in December 1982 and a 6 percent increase in January 1983--should be included among the positive trend phenomena.

In the present economic situation, with the relatively higher profitability of milk production than of hog production, hog breeding is losing in the competition with cattle breeding, as a result of which hog breeding has been sharply limited.

Improvement of the hog breeding situation will depend on fodder conditions in 1983 as well as on the economic conditions of the sale of animal products.

8729

CSO: 2600/708

## BRIEFS

SOVIET EXPERTS' VIEWING OF REFORM--A team of experts representing the State Planning Committee of the USSR is visiting Poland at the invitation of the government commissioner for economic reform. They are interested in learning about problems associated with planning and management and the performance of enterprises within the context of the economic reform which is implemented in this country. The team of Soviet experts, consisting of 10 members and headed by Viktor Borisovich Negrutsa--member of the collegium of the State Planning Committee of the USSR, spent 9 June 1983 on a visit to Radom Voivodship. The Soviet specialists met with party and government officials from Radom Voivodship. They also paid a visit to two key local industrial plants, i.e., the "Radoskor" Leather Products Industry plant and the "Pronit" Chemical Works in Pionki.

[Text] [Warsaw TRYBUNA LUDU in Polish 10 Jun 83 p 4]

CSO: 2600/987

PROBLEMS IN PETROLEUM SUPPLY SITUATION EXAMINED

Zagreb VJESNIK in Serbo-Croatian 8 May p 5

/Article by Salih Zvizdic: "A Vicious Circle: Petroleum--Dollar--Dinar"/

/Text/ Because of the introduction of coupons the federation has lost approximately ND 400 billion between 1 October of last year and today. Caught in a bind by administrative decisionmaking, the petroleum industry hopes that the coupons will be discontinued, but there's not much chance of this happening, since the resulting savings have after all been significant.

Until the end of March of this year the Federal Executive Council was not sure whether it should or should not discontinue fuel coupons. Then the view prevailed that "it's not a bad idea to save a bit more fuel in order to have more for the tourist season."

Today the tourist season is just around the corner, and we have had plenty of experience with fuel coupons. What are the chances that coupons will be discontinued in the next quarter? A straightfoward answer is--very low, practically nonexistent. The fairy tales printed in some newspapers to the effect that there is a surplus of gasoline and that we don't know what to do with it are not true. There is enough gasoline to satisfy our present limited needs, but there is simply no "super" surplus. As regards foreign tourists and all those who possess prepaid coupons for them, there won't be any "fuel problems" either during the /tourist/ season or later.

Off to a Bad Start

Let's take a look at the current situation as regards the production of /petroleum/ derivatives in the three refineries of INA /Adriatic Petroleum Industry/, which accounts for more than one half of Yugoslavia's production.

It was planned that in the first 4 months of this year the 3 INA refineries would process 2.48 million tons of petroleum, while they actually processed 1.971 million tons, or 79 percent. There were also shortfalls in planned production in the other Yugoslav refineries: Bosanski Brod, Pancevo, Novi Sad and Skopje.

The reasons? Not enough petroleum was imported, although certain "transitional" quantities existed. The result of this situation is as follows: during the first 3 months of last year the work organization INA-Naftaplin (which produces about three-fourths of our domestic petroleum) produced 762,540 tons, while for the same period this year the figure was 713,448, or 7 percent lower. The trouble is that this disproportion may increase in the months to come, to our disadvantage, for chisels /petroleum cracking equipment?/, pipes, and other specialized imported equipment have not yet been purchased and our old equipment is wearing out every day.

During the first 4 months of this year the INA refineries supplied the market with 337,000 tons of fuels for internal-combustion engines, while last year for the same period the figure was 15 percent higher, or 392,000 tons. While at the end of 1981 there were 2.568 million private automobiles on our streets, last year there were approximately 2.7 million! In other words: consumption is at an absolute minimum.

The forecast for processing in the INA refineries during the fifth month of this year (for the remaining months we cannot give any reliable predictions) is not encouraging. Only 243,000 tons of petroleum are expected to be produced in our domestic /oil/ fields, while we are counting on importing another 200,000 tons. This means, at best, 443,000 tons, although under normal conditions, about 620,000 tons are refined monthly!

In any event, the refineries and distributors have accumulated fuel reserves for the tourist season, when the consumption of gasoline and diesel fuel will be double that of the other months of the year.

#### A Problem in Being Paid for Exports

Unfortunately, there is again a bottleneck, and a serious one, in providing hard currency for importing petroleum (all exporters to the convertible sector are obligated to put aside 17 percent of their influx of hard currency for purchasing petroleum). The more our exports fall below the planned levels, the lower the influx of hard currency for purchasing petroleum, and for this reason we have problems with the importation of petroleum. To balance our energy budget for this year we ought to import approximately 11 million tons of petroleum, 6.5 million tons of which should be from the convertible sector. For imports from the convertible sector alone we must provide about 1.6 billion dollars.

Clearly, when there is a lower influx of hard currency less petroleum can be purchased. Problems have arisen in connection with paying for exported goods, for the foreign buyers don't pay us immediately, blackmailing us, and every delay in payment under inflationary conditions is in the buyer's favor. Therefore there is actually less of a problem in exporting goods than in making sure that exports are all paid for promptly. Until we are paid for our exports, we can't buy petroleum. Previously the National Bank of Yugoslavia used to intervene in such cases, lending hard currency. Now not even the National Bank can do this, for its reserves of hard currency are extremely limited.

And now, because of these limited reserves of hard currency, the situation is such that our imports of petroleum depend almost exclusively on the level of exports, and because there are a few bottlenecks as regards export, it is simply impossible to make reliable plans for importing of petroleum. In other words, this means that it is very difficult to come to a decision whether to discontinue fuel coupons, which have after all resulted in some fuel savings.

#### The Vicious Circle Creates Paradoxes

The most recent increases in the price of petroleum derivatives in our country have given the refineries some relief. Don't misunderstand--the refineries do not as a rule benefit from coupons or decreased consumption, for all the fixed production costs remain the same despite decreased turnover, which of course leads to losses. The same is true for distributors of petroleum derivatives.

The world market is clogged with offers of petroleum, and the prices of crude oil are plunging. In Yugoslavia, however, they are rising, for the dinar value of the dollar is constantly rising. As long as the dinar continues to fall in value, the price of petroleum will rise for us independently of the foreign petroleum market. Such a reverse process is nothing new but rather an economic category which also affects a number of other countries with a weak domestic currency.

Things have progressed to the point where we have an illusion of economic illogic as regards the utilization of the capacity of our refineries. The Rijeka refinery, the largest in our country, would have had a loss of ND 577 billion last year if it had operated at full capacity.

However, if it had shut down it would have lost only ND 96 billion! The paradox consists in the fact that the refinery buys petroleum for dollars and sells the derivatives for a dinar price which is fixed in advance. While the petroleum is being processed, the dinar loses so greatly against the dollar that losses are unavoidable. Greater production under such conditions leads to a greater loss of dinars! If one buys petroleum on expensive foreign short-term credit, then there are still additional losses. A vicious circle: petroleum--dollar--dinar.

The 25 percent average increase in the price of derivatives of 15 April was received by the refineries with great relief.

The INA refineries will by the end of 1983 have a realized total of ND 24 billion from this increase. On the other hand, the negative results in these refineries for 1983 and previous years amount to ND 40 billion. This means that at the end of this year about ND 16 billion will be unaccounted for.

But this calculation of the increase is no longer realistic because of the decline in value of the dinar. Namely, a dollar value of ND 79.70 was used as a structural element in the 15 April price increase, although on 15 April the exchange rate was somewhat lower. Today, however, the dollar is already worth ND 81.66! The refineries proposed that the possible value of the dollar at the end of the year be taken as a yardstick for the price increase, but this was

not accepted. In other words, right now the refineries are already losing dinars even for the petroleum which they are still processing.

All this goes to show that our society cannot deal with petroleum and the prices of its derivatives for individual cases but that goal-oriented systematic measures are needed, with the greatest attention given to increasing domestic petroleum production.

#### Losses Because of Saving

Difficulties in supplying imported petroleum have also originated from the fact that the refineries have not had dinars to pay the dollar equivalent of imported petroleum. Now this problem has been shelved for at least the time being. The production of crude oil is also in a better position, for the price of a ton of domestic petroleum has been confirmed at a maximum value of ND 17.438, and soon the price of natural gas will be increased as well (it is said that the price of our own gas is 80 percent lower than imported gas).

But, regardless of the current situation, all this goes to show that the entire petroleum industry is in a tight economic bind, for it does not regulate the prices of production and income according to the economic parameters of the market over a long time period but rather its parameters are determined by sociopolitical communities guided by the interests of the industrial and social moment.

It can be seen from the structure of retail prices of fuel that a decrease in fuel consumption means in practice enormous losses for the federal budget as well as for road building and the opening or maintenance of coal mines and for all others who receive a slice of the economic pie. For every million liters less of premium gasoline sold in our country because of limited consumption the federal budget loses about 12 and the highway system about 8 million dinars!

It has been calculated that the introduction of fuel coupons has, from 1 October of last year (when the coupons were introduced) to the present, cost the federal government about ND 40 billion!

#### Fuel Coupons on the Black Market

It is a well-known secret that coupons for gasoline and diesel fuel are being traded on the black market and that these worthless pieces of paper have become a sort of paper money. But, one might ask, where do all these coupons on the market come from? For it is clear that only a small number of these black-market coupons are coupons of owners who sell them after obtaining them legally.

There are eight types of coupons on the fuel market, divided into two basic categories: coupons which only give one the right to buy gasoline or diesel fuel and prepaid coupons which simultaneously give the right to buy and serve as securities for buying fuel.

The gas stations keep no special record of how much gasoline is sold for "permission coupons," i.e. for ready cash, and how much for prepaid coupons. There is no record of whether a person buying fuel with prepaid coupons from domestic work and other organizations is pumping gas into a private or a company car! As a rule you can get gasoline at any station for prepaid coupons purchased with hard currency, although this fuel can rightfully be purchased with such coupons only by the owners of cars with foreign registrations or the owners of cars with domestic registrations who are temporarily working abroad (which they must prove by a residence visa in their passport).

We don't wish to accuse all gas station attendants of illegally selling fuel, but there is no doubt that many of these coupons have become the goose that lays golden eggs. By the way, this is confirmed by those few cases which have been detected by police agencies or by the inspectors of work organizations which sell fuel.

#### Coupons--Golden Geese

Fuel coupons are now being sold almost publicly in cafeterias, buffets, at weekly used-car markets, in work organizations and elsewhere. The price of a coupon for a liter of premium is between ND 10 and 20, depending on the market supply and the season.

It is possible to buy from a gas station without coupons, but the buyer will pay ND 62 or 70 for premium gasoline. For prepaid coupons bought for hard currency, the seller will pump into the tank of a customer without a foreign registration several liters less than the value of these coupons. This is the seller's "cut" because the buyer is "breaking a regulation."

Where do the sellers get a surplus of fuel to sell more expensively? Here is one possible way. Our worker abroad can buy as many fuel coupons as he wants to use in Yugoslavia. If he buys 500 liters of gasoline this will cost him ND 23,400 instead of ND 26,000. If he offers these coupons to a gas station attendant, the latter may in exchange pay him the dinar equivalent of these coupons and give him "permission coupons" to buy 500 liters of gasoline. Such embezzlement is practically impossible to control, for no special record is kept of the sale of fuel for coupons, nor is there any record of the sale of fuel according to types of coupons.

In a specific case our "foreigner" obtains "permission coupons" which let him buy 500 liters of fuel, and he can sell these coupons for 10 to 20 dinars each. This means in practice that the German mark, thanks to this transaction, is being sold on the black market for 55,000 dinars! Of course all this can be arranged with the attendant, who can sell this premium gasoline without coupons for ND 70 a liter.

Many gas station attendants would not like these coupons to be discontinued, for they represent a large share of their supplementary earnings. In addition to collecting their "cut" from customers who buy fuel illegally, they "save" many liters of gasoline by cutting off the flow of gasoline to domestic and foreign buyers in that by closing the valve at the end of the rubber tube, or